



Daily Report

Supplement

Central Eurasia

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Central Eurasia SUPPLEMENT

FBIS-SOV-95-068-S

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Regional Affairs

Sakha Privatization Progress Detailed

954F1956A Yakutsk RESPUBLIKA SAKHA in Russian
17 Feb 95 p 2

[Article by A. Trifonova, economist of the State Statistical Committee of Yakutia: "How Much Has Become Yours? Development of the Nonstate Sector of Yakutia"]

[FBIS Translated Text]

Stages of Privatization

The year 1992, when the process of changing forms of ownership by means of privatization and destatization was started, can be called the beginning of the entry into the market. The organizational and legal forms of economic management also changed, which resulted in turn in a change in the functions and structure of enterprise management. The population was issued privatization checks. The number of peasant farms increased, and a reorganization of sovkhozes occurred. Private enterprises appeared.

The year 1993 was characterized by the formation of a multistructured economy. In this period peak privatization of state enterprises occurred, reorganization of sovkhozes was practically completed, and impetus was given to entrepreneurial activity. People invested privatization checks, and check auctions started in the sale of shares of stock of open joint-stock enterprises.

In the year 1994 the formation of market structures continued, and the foundation for a market economy was laid. Check privatization was completed and monetary privatization started. A stock market was formed.

Average and Lower Rates

The organization of new components of economic management became the consequence of the economic reforms that were conducted. Their number grew each year, and according to the status on 5 January 1995 it had reached 14,000. Including more than 2,000 state, about 1,000 municipal, about 9,000 private, and about 2,000 other forms of property. As a result of the increase in citizens' business activity, in the last year alone 5,500 management components were officially registered at the State Committee for Statistics of the republic, of which 73 percent were private.

Since the end of 1991, the number of enterprises in Yakutia that have changed form of ownership has reached 365. In 1994 privatization of state enterprises slowed down with respect to the number of facilities involved. This is explained by a curtailment of the scale and volume of privatization and a slowdown in its pace as a whole in Russia.

Conversion to joint-stock companies predominates in the privatization of large and medium-sized state enterprises. This is required both by the formation of market relations and the necessity of attracting capital from the outside; therefore, open joint-stock companies began to be formed in 1994, and they make up half the total number of properties that are changing form. In conversion to joint-stock companies, preference was given at first to the second variant of privileges and, subsequently, to the first, under which the controlling block of shares of stock remains with the state.

On the whole, against the background of the Russian Federation and the regions of the Far East with respect to scale, volume, and rate of privatization, the republic is at the level of average or slightly less than average indices.

With respect to belonging to organs of management, the portion of enterprises that are in republic ownership predominates—70 percent of the total number of those that were privatized. In 1992 alone the number of privatized facilities of municipal property was higher and totaled 51 percent. In 1993 and 1994, the privatization of such enterprises slowed down greatly—almost all municipal facilities are unprofitable, and labor collectives are buying them out reluctantly. Recent practice shows that the profile of activity of some privatized enterprises of municipal property is changing, premises are being leased, work places are being cut down, and in the more profitable enterprises, especially in trade, the entire authorized capital is being transferred into the hands of two or three people.

Trade and Consumer Services

The process of privatization started more actively in the sphere of trade and consumer services. In the formation of market relations in the consumer market, a significant role was played by the edict of the president of the Russian Federation "On Freedom of Trade," which promoted the reanimation of private initiative, development of competition, and overcoming monopolism in this sphere. While previously practically all stores, dining rooms, cafes, etc., were part of trade organizations, trusts, URS's [Workers' Supply Administrations], and ORS's [Workers' Supply Departments], or were on the balance sheets of nontrade enterprises, after commercialization they became legal entities and were given the opportunity to work independently.

According to the status on 1 January 1995, 42.4 percent of the republic's trade turnover began to be provided by officially unregistered private persons and nontrade organizations, and 67 percent of commodities were sold by enterprises in the nonstate sector. A reduction occurred in the role of the state trade sector in providing commodities to the population, and a basis was laid for the formation of private trade as an alternative to state trade for the creation of a competitive environment. Through nonofficial channels and newly formed commercial structures, by means of independent purchases of trade enterprises, and other channels there was a

significant expansion in commodity supply, and shortages almost disappeared. A trend toward restoration of the physical volume of retail trade turnover was noted.

At the same time, the quality and level of trade service frequently fell to second place. Investment activity is extremely weak in the branch, and investment in the formation of the gross domestic product is insignificant.

The situation in the sphere of consumer services is worse. Since the beginning of the process of privatization, 46 consumer services enterprises have changed form of ownership. The formation of market relations here is associated with many difficulties. Reorganization of this sphere entailed the elimination of a considerable number of enterprises and services. This especially affected the rural population. At the present time, former consumer service centers and their subunits have been eliminated in 10 settlements. In January-December 1994, of the officially registered enterprises, specialized enterprises rendered only 14 percent of the total volume of consumer services. The remainder is rendered by production enterprises for their own workers, or "on the side" for their own workers for the sake of additional financial resources. In addition to them, according to estimating data, consumer services are rendered by citizens who acquire the right to engage in entrepreneurial activity without the formation of a legal entity. Their share in the volume of consumer services in 1994 was 26.7 percent. On the whole the nonstate sector here takes up 33 percent. Together with this, the appearance of private enterprises did not lead to an improvement of the situation in this branch. The increase in prices for raw materials, materials, and component parts, and the shortage in their own turnover supplies and a weak material-technical base compels entrepreneurs to engage in commercial activity. It can be considered that consumer service in the republic is on the decline and is under threat of disappearing.

In the Village and the City

In 1994 the privatization of enterprises in construction, transportation, and industry was practically completed. Moreover, it proceeded more actively in the construction complex, and with more difficulty in transportation, and, at later dates, in industry.

A general feature in this was the breaking up of rigid centralized structures of management as a result of the detachment of individual independent enterprises from large associations, and their reorganization in the initial stage into joint-stock companies of the closed type.

Multistructuring occurred in the village during the course of land reform. As a result of the reorganization of sovkhozes, farms were broken down into smaller units, and shared property enterprises predominate. Only a very insignificant number of them legally formed such a change through the State Property Management Fund. There is no substantial difference in the organization of production and the results of activity between sovkhozes

and agricultural enterprises of the collective shared form of ownership. The difference is only in the implementation of the rights of shareholders by means of the apportionment to them of heads of cattle, horses, and agricultural equipment that is due them. It can be said that the speed of destruction of the old system in the agrarian sector significantly surpassed the speed of formation of new economic relationships.

At the present time, enterprises in the nonstate sector produce 80 percent of the industrial products, perform 70 percent of contract work in construction, and accomplish almost the entire volume in conveyance of freight on general use transport, 20 percent of the transport of passengers, and, if municipal property is taken into account, almost the entire volume.

Some Results

Privatization and destatization in our republic did not achieve their objectives. Analysis of the economic activity of privatized enterprises before and after privatization basically does not show any increase in the efficiency of production or increase in the quality of products, and there is no evident increased material interest in the results of work; a parasitical attitude persists, and the expectation of state support reigns. Substantial differences from the activity of state enterprises are not observed.

Against the background of average republic indices, the most active privatization is occurring in Yakutsk (145 units), and Aldanskiy (30), Khangariaskiy (33), and Nyurba (22) settlements. Not one facility has been privatized in Allaikhovskiy, Bulunskiy, and Eveno-Bytantayskiy settlements.

One's Own Fortress

The formation of the nonstate sector is also occurring in the housing and municipal services economy with the privatization of housing. Its pace is increasing with each year. In 1994 more apartments were privatized than in 1993 by a factor of 1.8. On 1 January 1995 the number of apartments that shifted to private ownership since the beginning of the privatization process totaled 34,344, or 15 percent of the apartments subject to privatization. The peak in the privatization of housing in the republic occurred in the second quarter of 1994. Its pace here is much lower than in Russia and the Far East region. On the whole in the Russian Federation the proportion of privatized apartments in the total number subject to privatization equals 32 percent. The apartments of those who were leaving the republic were privatized first. Local people are not in a hurry to privatize their apartments, and are intimidated by the condition of the heating networks and other engineering lines that are not entirely fit for normal operation; people are not confident in the future resolution of problems of housing repair and payment for services. The pace of privatization is greater in Verkhnevilyuiskiy settlement (40 percent), in Aldanskiy, Kobyaitskiy, Lenskiy, Namskiy,

Nyurba, and Ust-Aldanskiy settlements—higher than 20 percent, and in Amginskiy, Verkhoyanskiy, Vilyuiskiy, Mirninskiy, Olenenskiy, and other settlements—10-15 percent. It is lower than 5 percent in Abinskiy, Tattinskiy, and Momskiy settlements. The index in Yakutsk is equal to 18.9 percent and Neryungri—6.3 percent.

Sakha President's Mailbag Reviewed

954F1955B Yakutsk RESPUBLIKA SAKHA in Russian
3 Mar 95 p 2

[Interview with V. Danilov, manager of the assistants to the president of the Republic of Sakha, by unidentified correspondent: "The President's Mail"]

[FBIS Translated Text] In the large stream of letters that arrive in government institutions, quite a few are addressed personally to M.Ye. Nikolayev—both as president of the republic and as a deputy of the Federal Assembly of the Russian Federation. What is the nature of this mail? We asked V. Danilov, manager of the assistants to the president.

[Danilov] During 1994, 21,057 pieces of mail, appeals, and statements arrived in the section for the reception and dispatch of presidential and government documents. One thousand three hundred and thirty-four written and 425 oral appeals of citizens were addressed to the president of the Republic of Sakha (Yakutia)

As analysis shows, the quantitative and qualitative characteristics are tightly interrelated. A noticeable politicization of the mail and an intensification of the critical tonality has occurred in assessments of the progress of reforms and the results of the activity of the authorities in the center and localities. Based on content, 597 appeals were forwarded for review by settlements and cities, 495—by ministries and departments, and 258 were reviewed directly by the apparatus of the president and the government of the republic.

Both the situation in Russia as a whole and the specific character of our republic are reflected rather adequately in the mail. In this connection, on the basis of an analysis and generalization of the mail, quarterly numerical analytical materials on the nature of the appeals of citizens were sent to the leadership of the republic. One hundred and three of the most important letters were reported to the president of the Republic of Sakha (Yakutia) directly, and 155 to the government.

[RESPUBLIKA SAKHA] Vladimir Petrovich, if it can be put this way, let us sort the president's mail according to subject. What is written about most often, and what kinds of questions are raised?

[Danilov] I will refer to the analysis that we are doing. Almost 64 percent of incoming letters concern social and everyday questions, and more than half of them contain requests to improve housing and municipal and

everyday services. Almost 21 percent contain questions about pension support, rendering material assistance, etc.

Most of all, complaints on the low rates of construction and violations of orders of priority in granting housing come from war and labor invalids, those disabled because of illness, mothers with large families, single mothers, and citizens who live in rural localities. The decision of the government of the republic on declaring housing construction a national state program was received with approval and hope.

Another characteristic of the mail is that a considerable volume of it contains proposals on recognition of individual categories of citizens as participants or invalids of war and the introduction of additional social protection measures for them. This question is raised strongly by citizens whose childhood occurred in the war years.

If we look at the nature of letters concerning trade questions, they concern assistance in acquiring agricultural equipment for personal plots and cars at favorable prices, and protection of the right of consumers in connection with different kinds of trade violations. Thus, regarding the complaints of purchasers of complex everyday equipment, a decree of the government of the republic has been adopted—N 510 of 30 December 1994 "On Guaranteed Service of Complex Everyday Commodities," which increases the responsibility of trade enterprises.

Statements on health service problems in the main raise questions about the allocation of monetary resources to treat children, sending patients to specialized clinics outside the borders of the republic, and the high prices of medicines.

The number of letters about the work of the law enforcement organs—the courts, the procuracy, and internal affairs—is growing. Legal protection of citizens is weak. Frequently, people are for various reasons are refused their right to a legal defense. Judicial decisions, especially in the civil-legal sphere, often remain unfulfilled and are ignored by those to whom they are addressed. A distinguishing feature is the increase in the complaints of citizens who are in correctional labor institutions. Many letters concern questions of a pardon, conditions of upkeep, reversal and revision of judicial decisions, and mutual relations with the administrations of correctional labor institutions.

[RESPUBLIKA SAKHA] Good. A lot of mail comes to the appropriate service every day. What happens to it?

[Danilov] All the mail is registered, and almost every letter is tracked. Analysis of the answers to so-called tracked letters showed that due to insufficient attention to work with these letters and poor executive discipline, the number of positive decisions on valid requests and requirements of claimants is reduced, review periods are violated, and claimants are not always given well-reasoned replies.

According to the results of examination of tracked appeals, a majority (78 percent) are given practical assistance, or the cited facts are confirmed, measures are undertaken, and explanations given. The Ministry of Internal Affairs, Ministry of Social Security, State Committee on Geology and Mineral Use, and the Committee for Protection of the Rights of Consumers in Trade and the Sphere of Services have effectively undertaken measures on complaints and have rendered specific practical support. A lot of attention is given to citizens' letters by the administrations of the cities of Neryungri and Mirnyy, and the Allaikhovskiy, Zhiganskiy, and Lenskiy settlements.

[REPUBLIKA SAKHA] But the people are not only writing, they also want to meet with M.Ye. Nikolayev personally, as president and as a deputy of the Federal Assembly.

[Danilov] During the last year 425 persons came to the reception room of the president and the government with personal problems. A large number of the visitors are from poor families. Almost every second visitor is a pensioner. In addition, last year M.Ye. Nikolayev, president of the Republic of Sakha (Yakutia) and deputy of the Federal Assembly of the Russian Federation, held a reception of citizens on their personal problems right in the localities—in the cities of Neryungri, Mirnyy, Aldanskiy, Anabarskiy, Bulunskiy, and others, and a total of 15 settlements.

Taking into account the nature of the citizens' appeals, the president issued 294 edicts and 750 directives concerning various aspects of socioeconomic life and social protection of the individual. This also concerns many decrees and directives of the government.

In conclusion, I would like to emphasize that the president's mail reflects the hopes of the people of the Republic of Sakha (Yakutia) for a qualitatively new revival of the republic and for M.Ye. Nikolayev's personal role in this process. Given the broad spectrum of opinions, the main mood of the inhabitants of the republic becomes apparent—a desire for the situation to be stabilized and for the adversities that have fallen to the lot of all Russia to be overcome.

Sakha Parliament Control Chief on Goals

954F1955A Yakutsk REPUBLIKA SAKHA in Russian
3 Mar 95 p 2

[Interview with Deputy Mikhail Sannikov, chief of the Sakha parliament Control Committee, by T. Safonova; place and date not given: "Parliament Control Committee"]

[FBIS Translated Text] A Control Committee, the necessity for which has caused a lot of controversy in the authoritative structures for a long time, was established under the parliament of the republic at the end of last year. Deputy Mikhail Sannikov became chief of the committee. He is 42 years old. He is a graduate of the agricultural

faculty of Yakutsk State University and the Russian Academy of Administration. Before this he was president of the Association of Farms and Agricultural Enterprises of the Republic.

[Sannikov] The soviets at all levels had the right of comprehensive control, and they could check up on anything they considered necessary. But the main task of today's control organ of the State Assembly, according to the constitution, is to oversee the implementation of laws and also the preservation of state property.

[Safonova] Mikhail Semenovich, when you approved the structure and the list of staff members of the Control Committee three months ago, you fought very persistently for literally each staff member. What is this associated with—with the desire of a newly fledged chief to have a few more people subordinate to him, or rather with the specific functions of the new organ?

[Sannikov] I defended the structure of the committee, which, according to my ideas, should operate in three directions: To control the implementation of laws, to cooperate with the control organs of the executive authority, and to stand guard over the economic security of the republic. However, the deputies of the House of the Republic nevertheless agreed that the committee should not get involved in financial control and control over centralized credit resources. On the other hand, it was granted the right to form staffs itself, after getting approval at a joint meeting of the houses of the State Assembly on the limits of the appropriations for maintenance of the committee.

[Safonova] At the session when you were approved for the position, the parliamentary commission on currency questions reported on its work. Everyone remembers what difficulties it ran into during the verification. Will the Control Committee get the power to overcome the barriers that are inevitable in its activity and to fulfill its functions to the fullest extent? Otherwise, there is probably even no sense in creating such an organ...

[Sannikov] If one proceeds from your example, then really the legislative base today does not permit the Control Committee to intervene, for example, in the daily activity of the Committee on Precious Metals. It is another matter that there should be laws that determine in what directions foreign currency, the gold reserve, and the diamond fund should be used. This is the wealth of the people and the property of the republic, which means that its status should be known to parliament. There is also no harm in the voters knowing how expediently and economically profitably the authorities are using the common wealth. But our mechanism for expenditure of foreign currency is extremely simple. There is something behind the fact, obviously, that letters are already being addressed to the Control Committee whose authors assert the economic unsoundness of using foreign currency resources for implementation of individual projects. In the opinion of some specialists, such projects cost the republic more than similar projects cost other

countries. How correct they are can only be judged on the basis of proficient analysis. In our work, we will of course rely on the assistance of highly qualified specialists.

[Safonova] Many laws, even the best ones, are not functioning. Both executives and legislators talk about this. Is there any hope that the Control Committee will change the situation?

[Sannikov] Actually, the law confers only the right to function. How it will be put into effect depends on the executive authority, various structures, and the citizens themselves. Therefore, there absolutely must be control over the implementation of laws on the part of specifically the law-creating organ. Incidentally, parliament defended the control functions with great difficulty. The formation of this organ was dragged out for a long time. The Law on the Control Committee was adopted by the former Supreme Soviet as long ago as May 1993. Then the Supreme Soviet was dissolved, and when the new parliament was formed once again there was discussion of whether the committee was acceptable, given the changed circumstances. After long arguments it was nonetheless decided to establish it.

[Safonova] Will the powers of the Control Committee be concluded with the end of the deputy convocation?

[Sannikov] Last week the House of Representatives adopted a new law on the Control Committee in the first reading. According to this document, the committee will consist of a collegium and a working apparatus. The members of the committee will be deputies—representatives of both houses of the State Assembly and, naturally, its membership will be completely renewed after the conclusion of the convocation. But the executive committee, i.e., the specialists, will function on a permanent basis.

[Safonova] In the first months of work, did you have the time to feel the burden of new responsibilities? In your opinion, do you possess those qualities that are necessary, in general, for such an unenviable position?

[Sannikov] I am not one for advertising my own merits. I will note only that I did not immediately agree to run. My colleagues persuaded me. It is no secret that many representatives of the executive authority were against the creation of a control organ. I understand my responsibility, and I will be able to overcome the difficulties.

[Safonova] Well, then, we wish you success in the new field.

Economic Issues

*Economic Policy in April 1995 Previewed

954E0824A Moscow KOMMERSANT-DAILY in
Russian 01 Apr 95 p 1

[Article by Viktor Ivanov: "Government Has Stepped In For April Watch"]

[FBIS Translated Text] April, which has just begun, has always been a special month in Russia—the second quarter has traditionally been the most difficult, and has determined the results for the entire year. This year, however, there has been an interesting coincidence: Specifically, the budget-95 has been adopted by April, the economic policy has been formulated in its final form, and the authorities are only just now reluctantly undertaking its specific realization. In April, they will for the first time have to demonstrate an effort to find a sufficient volume of private investments in the country, which is experiencing an economic crisis.

April is the key month for the Russian economy for many reasons. For example, because in recent years the crisis fluctuations in production have borne a clearly expressed seasonal character. The decline has always been the deepest in the second quarter. In the third quarter there was a certain stabilization, and in the fourth we could even speak of a unique revitalization of the economy—in any case, at the end of the year the decline turned out to be not so catastrophic as might have been predicted at the beginning of the year. As a result, the primary task of the government was the struggle with the decline specifically in the second quarter—in any case, later it was easier. The authorities will undertake the resolution of this primary task in April, and the outcome of the struggle against the decline will largely determine the production indicators for the results of the year.

Up until now, April has played a specific role for one other reason. It is specifically in this month that the government not only tried to combat the decline in production most actively, but also finally settled accounts with its last year's debts to enterprises, and also performed mass financial infusions into the APK [agro-industrial complex] so as to at least hope for a Fall harvest. And there has always been a "harvest" from such April activity, although primarily in the financial sphere. Last year's example was "Black Tuesday" on the currency exchange. Thus, the cyclical nature of the Russian economy is being manifested also in the fact that in the Spring a certain euphoria may be observed in finances, while in the Fall and Winter there is the onset of crisis—and the greater the euphoria, the deeper the crisis.

This year, April is even more important than usual. Having proclaimed a new, strict financial policy in 1995, and at the same time announcing their intentions to change over to active stimulation of investments, the authorities had up until now successfully put off taking any specific steps toward the realization of these slogans, since the annual budget and the investment program had not been adopted. Now the budget has been adopted, and it is necessary to embark upon its practical realization. As a result, as strange as this may seem, only in April will it gradually begin to become clear what the real economic policy for 1995 will actually consist of.

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The announced slogans, naturally, will be realized whenever possible. Otherwise, the government would be acting dishonestly in regard to the international financial organizations which have already agreed to help Russia with credits. However, the methods of their realization may turn out to be rather unexpected. Upon until now, the authorities, so as not to scare off the IMF [International Monetary Fund], did not especially advertise the doubts which even they themselves had in regard to the capacity for fulfilling certain key budget indicators. For example, to cover part of the deficit (30.578 trillion rubles (R)) at the expense of distribution of state securities and at the same time to obtain R9.13 trillion in budget income from privatization. Nevertheless, these doubts are not unfounded. In a crisis-ridden country, the potential for private investments is too limited for large-scale state plans of receiving money in the form of loans and selling state securities to be realized. We must remember that the hopes of overcoming the investments crisis are also being pinned on private capital: The new investment program contains an original scheme, under which state funds would be invested in one project or another only if each ruble of state investments is matched by 4 rubles of private investments. In general, already in April the government will have to resolve the main question: How to realize its plans in view of the shortage of private investments.

First of all, naturally, the authorities will turn to the institutions in which private investment funds are found in the most concentrated form—simply speaking, to the commercial banks. They will be viewed simultaneously as purchasers of state securities, as a source for financing privatization, and as participants in new investment projects. However, the funds of commercial banks, obviously, are not unlimited, and the state (more likely already in April) will have to gradually resort to the usual aid of the CB [Central Bank] and renewal of the credit bolstering of the economy. We should remember also that the government, in striving to achieve approval of the budget in the Federation Council, promised to fulfill certain demands of sectorial lobbyists, who immediately perked up. However, no provision for fulfilling these demands was made in the budget. The APK, for example, is still demanding the allocation of R20 trillion in preferential credit already in April. Thus, it is specifically in the nearest time that the foundation may be laid for the financial (including currency) surprises of the Fall and Winter of this year. These surprises are especially probable if we consider the fact that the government has just assumed the rather unique obligation of bringing inflation down to 1 percent a month, and at the same time of increasing state currency reserves to \$11 billion.

***Survey of Enterprises' Innovation Activities**
954E0800A Moscow KOMMERSANT-DAILY in
Russian 28 Mar 95 p 3

[Article by Vladislav Borodulin: "The New—It's the Old Paid for by the State"]

[FBIS Translated Text] The assertion that the innovation activity of national industrial enterprises is extremely low has

long since become commonplace. A survey of almost 1,400 Russian enterprises, conducted by the government's Economic Situation Center (Tsentr ekonomicheskoy konyunktury, TsEK) only confirms this once again. Moreover, the results obtained indicate that, in essence, even minimal activity in this sphere is replenished only by budgetary funds and has, by virtue of this, an extremely low economic efficiency.

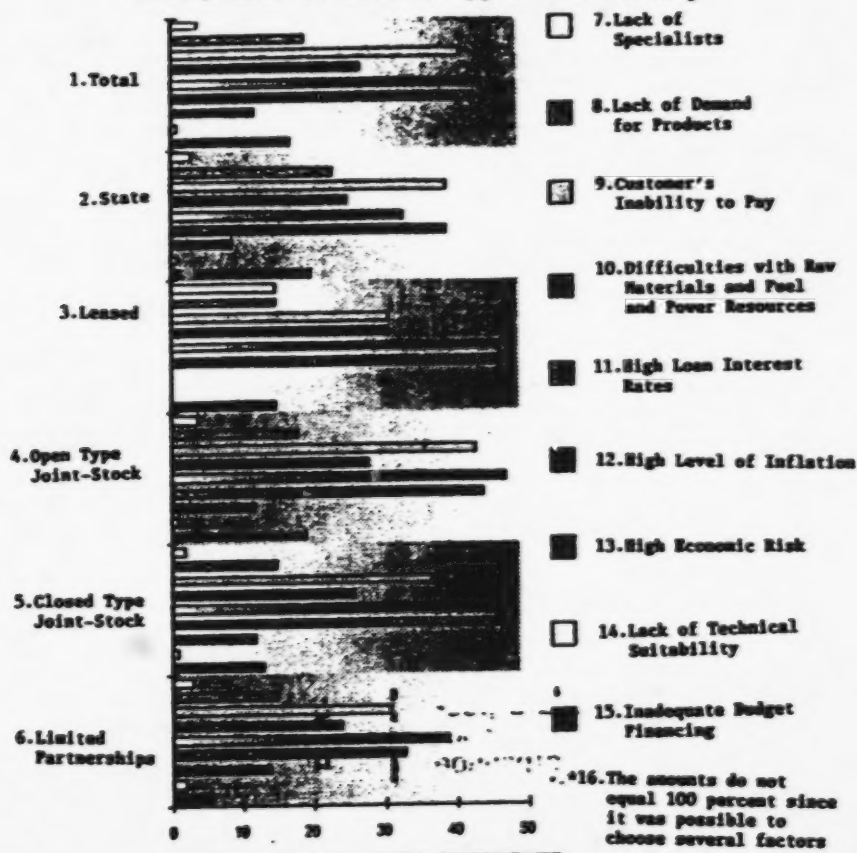
KOMMERSANT-DAILY. *The government's Economic Situation Center has conducted a sample survey of the effectiveness (resultativnost) of the innovation activity of industrial enterprises in the second half of 1994 and the anticipated changes in the first half of 1995. What is meant by effectiveness, in particular, are the results of the work of the companies in creating and producing new types of products and the utilization of new technologies. More than 1,400 managers of the enterprises of 11 sectors from 34 regions of the country participated in the survey.*

For a start, several figures which characterize the state of innovation activity generally. During 1994 the share of enterprises engaged in the production of products that are fundamentally new for Russia was constantly low—6-7 percent. The share of enterprises "improving," as it says in the survey, previously produced products was hardly higher (although constantly decreasing during the year). At the beginning of last year 26 percent of the enterprises surveyed were active in this, but only 21 percent by the end of the year. Precisely the same picture is also evident in another aspect of innovation activity—the creation of new and the improvement of old technologies. The best result—7 percent—has been achieved in the creation of technologies for enhancing the quality of products, the worst—2 percent—in the creation of technologies resulting in the improvement of living conditions (which, however, is very natural given the difficult financial position of the enterprises). The unusually high indicators of the improvement of old technologies (24 percent for quality enhancement technologies and 19 percent for material resource-saving technologies) is very simply explained: as a rule, it's a question of trivial things like "tighten the nut as far as you can and not as is customary" and "when leaving, put out the light."

What is called an obstacle to more active innovation activity by the directors is very curious. The entire spectrum of obstacles and the relative share of each is shown in the graphic. The experts of the Economic Conditions Institute point out that enterprises of the flour and groats and combined feed industry experience the least dependence on budget funds (which is natural, since new types of products were not developed at all in these sectors). At the same time the number of budget-dependent enterprises has dropped from 50 percent to 7 percent in the printing industry and from 37 percent to 5 percent in the building materials industry. However, as before almost all the large enterprises experienced an acute shortage of funds for innovation activity. And the survey has shown that precisely the large and super-large state companies play a decisive role in the status of innovation activity in Russia.

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Factors Restraining Innovation Activity
(as a percent of the total number of enterprises surveyed)* at Industrial Enterprises of Various Types of Ownership



The TsEK experts point out that precisely the state enterprises—approximately 8 percent of the total number (6 percent of the joint-stock companies, 5 percent of the closed type joint-stock companies and 6 percent of the limited partnerships (TOO) were active in this)—were more actively engaged in the development of new types of products. At the same time the basic portion of innovations fell to the lot of major enterprises. The statistics indicate that enterprises with from 5,000 to 10,000 workers (24 percent) and over 10,000 (18 percent) demonstrated the greatest pull to the new in the course of 1994. Indeed, the TsEK specialists think that the gap in innovation activity between large and small is gradually contracting. While the level of the modernization of products as a whole has fallen, at small enterprises it has grown by 1 percent during the year. However, this has not helped to set the innovation pyramid on its feet: the widespread opinion that innovation is the province (udel) of small companies is quite incorrect in

Russia. Large industrial enterprises subsidized by the state are principally active in this. At the same time, of course, the "structure" of innovations is deteriorating: enterprises are trying to get money not for projects the consumers need but for what the companies are able to produce (a classic example of this is Rostselmash which stubbornly produces and modifies combines that are mastodons).

However, the government has quite resigned itself precisely to such a structure. At one time the First Deputy Minister of Economics, Yakov Urinson, with unconcealed pride, showed a KOMMERSANT-DAILY correspondent a list specially prepared "for the political leadership," entitled quite in the Soviet style: "The Foremost Enterprises in 1994." Of the 32 enterprises mentioned in it, only a handful had developed truly new products and only food industry enterprises operated without budget help. The Uraltransmash company has found itself on the list under a very unusual pretext—it has completely fulfilled a state order for the delivery of self-propelled artillery pieces.

Precisely the same survey that has been conducted refutes the widely popular myth about the primordial effectiveness of federal special-purpose programs on the development and implementation of which the industrial lobbies insist. According to TsEK data, only 2 percent of industrial enterprises have developed new equipment in conformity with such programs. In this connection the conversion of the Ministry of Economics (done, it's true, for quite different reasons) to the practice of approving programs of only "social content" appears quite logical. The output based on them is low-tech and doesn't require struggles with new technologies from the enterprises.

In principle the low innovation activity of Russian enterprises due to the general economic crisis is quite natural. An extremely high economic effectiveness of innovations could have been anticipated under these conditions. However, TsEK's materials as regards this are dismaying: the overwhelming majority of the directors evaluate their economic results pessimistically. Thus, only 7-8 percent of the managers have pointed to a growth in profits through an increase in labor productivity. True, the directors were more optimistic as to the influence of innovations on competitiveness. The share of those who are certain that innovations increase competitiveness has grown from 16 percent to 19 percent. But on the whole the directors retain a negative mood and in 1995 the majority of them do not expect positive changes in the economic results of innovations.

*Financial Activities of Leading Bank Assessed

954E0784A Moscow KRASNAYA ZVEZDA in Russian
25 Mar 95 p 5

[Interview with Nikolay Viktorovich Bychkov, vice president of the MENATEP bank, by Valentin Rudenko; place and date not given: "Commercial Banks and the Military-Industrial Complex: MENATEP Relies on Strong Industry and Sees This As a Guarantee of its Reliability and Prosperity"]

[FBIS Translated Text] *From the KRASNAYA ZVEZDA file. Nikolay Viktorovich Bychkov. Born in 1960. After graduation in 1981 from the Simferopol Higher Military Political Construction School (with distinction) he served in units of the Turkestan and Moscow Military Districts. Discharged into the reserve with the rank of major because of organizational measures and hired to work at the MENATEP bank as an associate. He has been a vice president of the bank since January of this year.*

He is married and has three children.

[Rudenko] Nikolay Viktorovich, there is no need to introduce your bank. Everyone is talking about it. What is the secret of the heady success you have achieved in such a short period of time?

[Bychkov] By world standards our bank is really still young. We celebrated our sixth anniversary last December. True, because of the events in Chechnya we decided not to have a holiday. All the money we would have used for this was sent to Chechnya as humanitarian aid.

As of today MENATEP is one of the five largest banks of Russia. We were the first in our country to be transformed into a joint-stock company and the first to declare that we intend to work seriously with industry. We are trying to keep our word.

As was recently reported in the press by one of the leaders of the Central Bank of Russia, MENATEP has merged with domestic industry to such an extent that the state will always support it at a difficult moment. We think that such an assessment is evidence of the recognition of the bank's reliability as well.

The traditional branches for the investment of our bank's capital are chemistry and petrochemistry, ferrous and nonferrous metallurgy, mining, the food and textile industry, construction materials production, aviation construction, and other highly technological and forward-looking programs.

Practically since its first day the bank has cooperated actively with enterprises of the military-industrial complex and the Ministry of Defense. Suffice it to say that MENATEP is a depository of the Ministry of Defense for servicing treasury bills and bears a great deal of the burden of untangling the knot of nonpayments in defense enterprises and grants them credit with treasury bonds.

[Rudenko] Perhaps the most painful issue in our country is the financial one. But the commercial banks and other nonstate financial structures, as we know, are in no hurry to invest money in domestic industry. In your view, what measures should be taken to radically change the situation?

[Bychkov] I think we have to talk about an entire complex of measures whose essence amounts to the creation of conditions wherein it would be advantageous for commercial banks to invest money in industry. Nobody doubts the fact that in the present economic situation it is hardly possible to provide financing for large programs through the forces of state structures alone. Although we should probably strive for this. Otherwise what kind of market economy can there be.

A couple of days ago I represented the MENATEP bank at a meeting of the guilds of defense enterprises where, perhaps for the first time, there was an in-depth dialogue between Russian bankers and industrialists. On behalf of the bank's leaders I again confirmed that MENATEP is prepared to participate in the financing of the defense order throughout the entire spectrum of programs.

The discussion was primarily about granting state guarantees. We want to be sure that our money will not be thrown to the wind and will be invested in programs that have promise and are necessary to the state.

We are trying not to build castles in the air but to proceed from the realities of the present day. If there is a need to solve the problem of financing the state defense order, and there is one—the plants are standing idle without enough to produce, because of the shortage of working capital contracts for the delivery of arms to the army and the Ministry of Internal Affairs and abroad are being broken, and promising developments are being frozen—then industrialists and bankers must sit down at

the same table, and at the level of the Ministry of Finance and other state departments, people authorized to make decisions must reach agreement on how best to solve this problem.

Our bank has even made a suggestion as to how best to invest money in certain promising projects with a budget guarantee for next year, 1966. But, unfortunately, the routine of the ministries and departments is such that they cannot get things moving. And yet here it would be largely possible to solve both economic and social problems since the enterprises would receive an order and industry would begin to work, which, in turn, would reduce the social tension in "defense."

Last year we went to the government with a proposal to permit our bank, as an experiment, to implement the federal "Housing" program. There was discussion of the construction of housing for military servicemen who had been discharged into the reserve. There were 13 oblasts and republics that supported our proposal. With a guarantee from the Ministry of Finance, we invested in this program. As a result the regions had the opportunity to have an additional influx of funds, the cost of construction decreased, and people ultimately received housing.

[Rudenko] In spite of all of our economic problems Russia is potentially a very rich country from the standpoint of scientific, intellectual, and production potential and natural resources. Many Western firms and financial corporations would like, as they say, to rule the roost in the immense Russian market. How feasible is it to attract foreign capital for investment in large industrial programs, and should we place our bets on this?

[Bychkov] I personally think we should place our bets on our own forces and resources. This certainly does not mean that we should fully refrain from international cooperation. We are in favor of cooperation. But it must be carried out on a parity basis.

Practice shows that nobody just gives money away. This is confirmed by enterprise directors as well. For several years in a row they have been bringing foreign delegations to their plants and proposing cooperation with them, but Western investors are in no hurry to invest money in our industry, especially its science-intensive branches. And I can assure you that they will not do it. Tell me what entrepreneur wants help his own competition grow? That is, in the larger picture, nobody needs us.

[Rudenko] Many economists see the strategic direction of economic restructuring in the creation of financial-industrial groups [FGP] in the interests of the output of products that can compete on the world market. What is your attitude toward FPG's? Are you participating in their formation?

[Bychkov] Since ours is an investment bank, we were among the first to encounter the need for cooperation among the consumers and the producers and the associates. That is, an objective need has arisen to develop a

kind of model of a financial-industrial group and to begin to realize it in practice. Now, for example, we have begun to work directly with the directors and management of large defense enterprises in order to include the entire production cycle in one logical chain, beginning with the development of one item or another and continuing on to its production, until it is sold.

Thus on the basis of the Kurgan machine-building plant in conjunction with the Special Machine-Building and Metallurgy Joint-Stock Company, the special corporation Russian Weapons, and other partners we are participating in the creation of the Kurganmashinvest financial-industrial group, which includes 13 plants. We are now considering an investment project for modernizing and finishing up BMP-3, which has recommended itself well both here and abroad.

[Rudenko] What function, in your view, should be performed by the Central Bank and the Ministry of Finance under the new economic conditions? How are your relations with them?

[Bychkov] In our view, they are quite constructive. Although it will not be soon, we would like for them to be closer and more fruitful. As distinct from many commercial banks, even now we are participating in the implementation of various federal programs, which is meeting with understanding from the leaders of the Ministry of Finance and the Central Bank of Russia.

[Rudenko] We are now seeing a process of privatization of industrial, including defense, enterprises. Many banks and other commercial financial structures are becoming owners of these enterprises. Will they be able to manage them and will they take responsibility for the future of those who are now working at them? In your view, what fate awaits bankrupt enterprises?

[Bychkov] I will not undertake to speak for all the commercial financial structures, but as for MENATEP, when beginning to work with one enterprise or another, we pursue far-reaching goals and do everything possible so that these enterprises will begin to operate effectively as soon as possible.

Unfortunately, some people naively assume that if a bank has bought an enterprise it will immediately have to dump an incalculable amount of money into it. That does not happen.

Yes, we have certain financial capabilities and we are able to invest money correctly, but in order to achieve a real result, both the enterprise administration and the labor collective must work hard. That is our bank's fundamental position.

We have the controlling block of shares of the Bereznikovskiy Titanium-Magnesium Combine, the Voskresenskiy Chemical Combine (which is actually a city within a city), many textile enterprise, and the Detchinskiy concentrated food plant, which produces dry rations for the army, the Ministry of Internal Affairs, the Russian

Federation Ministry for Civil Defense, Emergencies, and Elimination of Consequences of Natural Disasters, and other departments.

Taking this circumstance into account, the bank has made a proposal to the Ministry of Defense to provide financing for budget items pertaining to supplying the army with substantial property and food. The proposed mechanism would make it possible not only to significantly simplify and facilitate the work of the corresponding rear structures but also to solve a problem which the Ministry of Finance has not been able to solve for a long time.

As for bankrupt enterprises, so far the commercial banks are simply not capable of buying them and reviving them. In my view, the responsibility for the fate of such enterprises, and the majority of them are science-intensive and highly technological productions, design bureaus, and scientific research institutes, should be assumed first of all by the state. Although we do not intend to stand on the sidelines. The bank, more than anyone else, is interested in stability and strong industry, including for defense. For therein lies the guarantee of stability. It is this circumstance that largely explains our special attitude toward the army and the military-industrial complex.

***Effectiveness of Foreign Trade Legislation Questioned**

954E0814A Moscow *EKONOMIKA I ZHIZN* in Russian No 9, Mar 95 p 30

[Article by A. Kirin, candidate of juridical sciences and deputy chief of the RF President's State-Legal Administration: "Foreign Investments in Russia: Will the New Measures Solve Old Problems?"]

[FBIS Translated Text] In order to stimulate foreign investments in the Russian Federation's economy, on 25 December 1995 [sic], the Russian Federation [RF] President issued Edict No 73 on Additional Measures To Attract Foreign Investments in the RF's Material Production Sector.

The edict specifies the application of rates for import customs duties, which have been reduced by a factor of 2 with respect to individual groups of imported products (with the exception of liquors and tobacco products) when they are imported into the area of the RF subject to customs duties.

At the same time, the established privilege has a proviso which comes down to the following:

—the preferential rates for import customs duties shall be applied only with respect to the goods of those foreign supply companies which are the founders of enterprises for the production of similar goods in the RF using domestic raw materials and the labor of Russian workers and which make direct capital investments in the RF's material production sector in an

amount equivalent to not less than US \$100 million. In addition, the contribution of a foreign participant to the charter fund of such an enterprise should come to an amount equivalent to not less than US \$10 million.

The appearance of this edict, just like that of the many other acts issued over the last 2 years by the President and the Russian Government on matters concerning the regulation of the legal conditions of foreign investments in the RF, has been caused, to put it mildly, by the not very great interest of potential Western investors in investing serious capital in the Russian economy.

Will the new edict help the actual stimulation of the activity of the West's industrial and financial circles in the Russian market? In order to answer this question, which is rhetorical to a significant extent under current conditions, it is necessary to present, at least in general terms, the actual situation with respect to foreign capital investments in Russia's economy over the last 2 years. However, this situation does not evoke optimism.

Governmental Declarations and Reality

As is well known, in the government plans announced back in 1991-1992 for radical economic transformations, important significance was given to the policy of attracting foreign investments. The financial investments expected then from foreign investors were supposed to ensure to a significant extent the Russian economy's structural reorganization, to enhance its export potential and to stabilize and to soften for the population the social consequences of the economic reforms' most difficult first stage.

Unfortunately, practice showed that the estimate of large-scale foreign investments in Russia's economy was not justified. And there are many reasons for this, which must be clarified for an objective assessment of the situation which has arisen.

For a start, let us examine certain basic statistical and expert estimates of and data on the volumes and structure of foreign investments in the Russian economy in 1993 and 1994.

Thus, according to expert estimates of actual needs and (what is very important) opportunities, Russia could assimilate \$10-12 billion annually, however, ideally, the country needs \$40-50 billion per year. For all practical purposes, by the end of 1993, the volume of foreign investments made in the Russian economy was estimated to be \$2.7 billion and 4.8 billion rubles [R] (for comparison, the accumulated foreign investments in China were around \$100 billion). At the same time, according to the Roskomstat's [RF Committee for Statistics] data, the increase over 1993 amounted to \$1.36 billion and R4.1 billion. The forecast estimate of the increase in foreign investments in 1994, in view of a whole series of circumstances, is expected to be even

more modest—a little more than \$1 billion and somewhat more in rubles—on the order of R10-15 billion (however, this amount also includes ruble investments in joint ventures involving capital from CIS [Commonwealth of Independent States] countries and a portion of reinvested profits).

Taking into consideration the fact that, up to the present, ventures involving foreign investments (PII), traditionally called "joint" ventures, remain the most widespread organizational and legal form of foreign investments in Russia, let us also examine certain estimate data which characterize them and which, for a number of reasons listed below, cannot be considered to be absolutely reliable.

According to official data, by the end of 1993, operating in Russia were around 6,500 ventures involving foreign investments, organized with firms from 112 foreign countries, while, by the end of 1994, the number of registered ventures involving foreign investments in the RF supposedly amounted to something on the order of 11,000-13,000 (by way of example: in tiny Estonia, more than 14,000 ventures involving foreign investments and purely foreign ventures have been registered). At the same time, the share of foreign capital in the overwhelming majority of the Russian ventures involving foreign investments amounts to from US \$1,000 to US \$10,000 and nearly half of all the attracted foreign investments went into fuel industry enterprises (first and foremost, those of the oil and the oil-refining industries) which were most attractive to the investors in light of the rapid recovery of the invested capital. Simultaneously, an obvious concentration of foreign capital is being observed in that same fuel industry, where more than 90 percent of all investments over 1994 was made, in all, by several (two to three) foreign companies. An imbalance in the foreign investments being made is also being observed regionally, where Moscow, whose share comes to more than 30 percent of all the accumulated investments, has remained the constant leader among Russia's regions in attracting foreign financial funds for the last 2 years.

In other words, at present, we have a clearly abnormal situation, in which the picture of the foreign investments is reminiscent of some dystrophic monster: skimpy volumes of accumulated investments; the presence in the Russian market of a group of small foreign entrepreneurs operating on their own responsibility and at their own risk (frequently in violation of legal and ethical norms and to the detriment of the Russian partners' interests) with a total amount of invested capital on the order of 10-15 percent of the total volume of foreign investments; at the other extreme, there are 10-20 transnational corporations and large financial and industrial companies which are investing significant funds (amounting to up to 80-90 percent of the total volume of foreign investments in the Russian economy) in individual projects and programs for the development, primarily, of the raw materials sectors and which are minimizing their

own risks using government guarantees and interstate agreements. At the same time, almost absent in Russia are the foreign investors who are most attractive for the development of our country's economy, those who represent the most active and stable middle layer of businessmen and entrepreneurs who are the real foundation of the market economy of any state.

Why Are Investments Not Coming into Russia?

The reasons for this state of affairs are several and, what is most interesting, they are all well known to the specialists. The most important factors which affect the investment climate in any country, including in Russia as well, can arbitrarily be divided into four groups. These are the factors which characterize the political and economic situations within a country, the level of the legislative, organizational and infrastructure support necessary to attract foreign investments and also the presence or absence of the risks caused by these factors.

Given the hypothetical attractiveness, which has continued over all the recent years, to the foreign investors of the Russian market in view of its scale and poor level of development, as well as the unlimited raw material resources, it must be acknowledged unambiguously that, so far, this attractiveness of the Russian economy is clearly losing ground to the amount of existing negative factors which are restraining and hindering the influx of foreign capital into Russia.

The most important ones of them, of course, are the continuing socioeconomic and political instability and the scale of the Russian political risks. As a consequence, and primarily for this reason, on the basis of the economic danger rating published by the magazine, *The Economist*, Russia's indicator is equal to 90 percent! (For comparison and by way of example: The indicators based on this same rating for the majority of our former CMEA brethren from Central Europe vary from 29 percent to 40 percent.) Another serious consequence of the economic and political instability, which, however, may also be viewed freely as an independent negative factor, is the continuing outflow of capital from Russia, which exceeded its influx in 1993-1994 by several factors. It is clear that the events in Chechnya will not have the best of effects on Russia's successes in the worldwide competition for available financial assets by any means.

Among the other no less important factors which are hindering the implementation of foreign investments in Russia, it is necessary to list the following:

- the backwardness of the system for insuring foreign investments against both commercial and political risks;
- the tax and tariff system existing in Russia and the very concept of taxation, which is geared one-sidedly only toward the accumulation by the government of budget funds;

- the privatization of enterprises, which is regarded by foreign investors and many experts more as an opportunity to transfer the rights to their ownership to the management of the enterprises and, to a lesser extent, to their workers, but not at all as a means for attracting foreign capital;
- the ruble's exchange rate, which is not coordinated with the actual level of inflation;
- the absence of the infrastructure necessary for the normal organization of business, a lack of transport, a lack of communications and so on;
- the low level of the business management training on the part of the Russian partners;
- the corruption in the state administrative system;
- and organized crime and a whole series of other factors.

It is quite clear, therefore, that the only thing which may induce the foreign investor to disregard the entire set of adverse factors is an actual possibility of deriving excess profits from the invested capital. At the same time, not only is the availability of advantages of one kind or another in comparison with domestic enterprises, toward which the acts adopted by Russian legislators are usually geared, substantially important, but also their comparability with the terms offered by the other post-socialist states of Eastern Europe and CIS countries.

***Draft Law on Foreign Economic Activities Viewed**

954E0824B Moscow KOMMERSANT-DAILY in Russian 31 Mar 95 p 2

[Article by Vadim Bardin: "Not a Step Forward, But Two Steps Back"]

[FBIS Translated Text] Reader recognition is manifested in different ways. The most obvious forms are, of course, subscriptions and placement of advertisements. But there are also less traditional variants. We view the appeal to the editorial office by State Duma Deputy Viktor Mashinskiy with a request to present a conclusion regarding the draft law, "On Foreign Economic Activity," on the eve of its second reading, as just such an acknowledgement of the authority of KOMMERSANT-DAILY. Moreover, not only as a daily newspaper, but also as an independent research center. KOMMERSANT-DAILY has fulfilled the request of Mr. Mashinskiy, one of the primary developers of the draft law. However, the content of the draft law deserves that the readers also become more familiar with it.

How the fourth estate interacts with the first and second

Why is the mass media called the fourth estate? The textbook answer: In illuminating the decisions which are adopted and prepared, the mass media formulates public opinion and thereby influences the decisions themselves,

as well as the mechanisms of their realization. All this, of course, sounds rather arrogant, but in practice, people sitting on the other branches of power have quite a different attitude toward this designated public opinion. In this sense, the situation which KOMMERSANT-DAILY experts encountered in writing about foreign economic regulation is rather characteristic. Vice-Premier and Minister of Foreign Economic Relations Oleg Davydov is one of the most attentive readers of KOMMERSANT-DAILY, which, of course, makes us happy. The conclusions which he draws, however, make us less happy. Believing, evidently, that the materials of KOMMERSANT-DAILY create an incorrect impression about him and his department, Oleg Davydov decided to introduce an informational blockade. And the last governing board meeting of the MFER [Ministry of Foreign Economic Relations] discussed ways of intensifying the struggle against information leaks. This, we might add, certainly does not mean that KOMMERSANT-DAILY readers will notice this blockade.

A more productive approach, in our opinion, was demonstrated by the legislators as represented by Deputy Mashinskiy. KOMMERSANT-DAILY was given the opportunity to give its conclusion to the draft law, "On Foreign Economic Activity." It is true, in his letter Mr. Mashinskiy, perhaps not without some ulterior motive, noted the "critical analysis by KOMMERSANT DAILY experts of the documents adopted by the government and the president." Well, the honorable deputy will have an opportunity to be convinced that the character of our analysis is determined by the content of the document, and not by its authorship.

What is this draft law about?

The answer suggests itself: Why, about nothing at all. It is clear that a number of laws may be adopted on foreign economic activity. So which did the legislators prefer?

The draft law begins with a formulation of its goal, which consists of "ensuring conditions for effective integration of Russia into the world economy, stimulating the development of the national economy in implementing foreign economic activity (VED), protecting the economic sovereignty and ensuring the economic security of Russia" (Article 1).

Despite all this eloquence, it does not say a word about support of VED participants. However, it does talk about "stimulating the development of the national economy." This should be understood as the support of national producers, which presumes the limitation of import and may become an obstacle to "effective integration of Russia into the world economy." There is also another formulation: "Protection of economic security and sovereignty," which is not deciphered in any way in the text of the draft law. Thus, instead of strengthening the positions of rank-and-file VED participants in the face of numerous state instances and controllers, the developers of the draft law preferred to elevate the old practice of regulating foreign economic activity to the rank of a law.

It is clear that the new law is not arising in an empty place: There are laws on currency regulation and currency control, on the customs tariff, on certain questions of granting privileges to participants in foreign economic activity, and the Customs Code. So that the place of the new law in the family of foreign economic legislative and standards statutes is easily defined: This is a law on non-tariff methods of regulating foreign economic activity.

Second coming of special exporters

And so, the theme of legalizing administrative levers of regulating foreign economic activity is central to the draft law. In essence, the draft law preserves the possibility of announcing a new call to administrative measures in regulating foreign economic activity.

Article 10: "At the initiative of the government, special state registration of Russian persons having the right to export strategically important goods may be introduced, and the procedure for such registration may be defined."

Everything may quite legally return to the way it was before. What is special registration if not the rebirth of the institution of special exporters? It is true, the law-maker has clearly limited the circle of strategic goods: "Arms, military equipment, fissionable materials, toxic and explosive substances, strong-acting narcotic and psychotropic substances, oil, gas, precious metals and stones, rare-earth metals, cultural valuables, and the import and export of manpower." Unfortunately, the "special exporters-2" have also inherited the main vice of their predecessors—they will be appointed in secret. The draft law contains no statutes on mandatory competitive selection for special registration.

In regard to quotas, everything is so clear in the draft law, as if export quotas had not been liquidated at all in 1995. Article 14: "State foreign economic policy is implemented by means of... non-tariff regulation (quantitatively—quota setting and licensing, and non-quantitatively—registration of persons having the right to export strategic goods and certification of products)". It is one of two things: Either this statute remained in the text of the draft law as an oversight, or it was not worth eliminating export quotas altogether. In any case, the situation would be entirely different if the text of the draft had contained a stipulation by which re-introduction of various export quotas must be substantiated by government fulfillment of financial obligations to its foreign creditors. This would have immediately limited the area of spread of quotas, and would have satisfied the IMF. Article 14 will clearly not accelerate Russia's entry into GATT/WTO [General Agreement on Tariffs and Trade/World Trade Organization]. The General Agreement on Tariffs and Trade contains a point according to which its participants must not introduce quotas and export or import licenses.

The draft law also resurrects and already half-forgotten concept of the state monopoly on export and import.

Although, it is true, only on certain goods. It is unclear why, but the developers of the draft law felt that special registration and quotas were insufficient. Article 18 legalizes the return of the state monopoly. At the same time, no limitations are presented on the list of commodity items. The only consolation for participants in foreign economic activity is that these clearly excessive measures may be introduced only by special law.

What will follow after all this?

The draft law legalizing export and import quotas, "special exporters-2," and state monopoly in the sphere of foreign economic activity does not facilitate Russia's integration into the world economy, as stated in Article 1. On the contrary, it reserves the possibility for emergence of autarchy, which in no way corresponds to the strategic interests of Russia.

The revitalization of the system of administrative regulation of foreign economic activity means that the social contractor of the draft law is not the Russian participant in foreign economic activity, but the MFER, which does not intend to give up its monopoly. At the same time, we may presume that the legislators, directly disavowing the presidential edicts which abolish export quotas and the institution of special exporters, have gotten carried away with their traditional opposition to the president's edict activity. In essence, however, they have played into the hands of the government, which has obtained a reserve way out of the situation in which the MFER has found itself under conditions of the IMF dictate. However, we certainly cannot exclude the possibility that the reaction of that very same IMF, which is carefully monitoring the changes in Russian economic legislation, will be rather harsh. Legalization of export and import quotas (without tying them in to repayment of debt obligations) may cause the stoppage of the credit in the sum of \$6.25 billion allocated by the IMF to Russia, without which the Russian budget-95 is simply untenable.

The draft law does not make any, even formal, steps in the direction of liberalization of foreign economic activity, and does not realize the possibilities, which are inherent in its text, for strengthening state support of VED participants. For example, Chapter 8, with the much-promising title, "Protection of economic interests of the Russian Federation, its subjects and Russian persons," consists of only Article 39, which is entitled, "Response measures in the sphere of foreign economic activity on protection of interests of the Russian Federation, its subjects and Russian persons." And that is all.

At the same time, the draft law (Article 13) contains a statute to the effect that the government must submit the federal program for development of foreign economic activity to the Federal Assembly for ratification. This statute is totally undeveloped. Yet it is specifically on it that VED participants could rely, had the legislators obligated the government to realize measures for support of Russian non-raw material export, with indication of the capacities and specific schemes of export crediting

and granting of guarantees to exporters. It would have been even better if the program had defined the priorities in the sphere of foreign economic activity which, naturally, must not only be declared, but also supported economically.

***Trading on Moscow Interbank Currency Exchange**

954E0812A Moscow KOMMERSANT-DAILY in Russian 24 Mar 95 p 7

[Unattributed article: "Dollar's Growth Slows Down: Currency Trading in Moscow"]

[FBIS Translated Text] The stable situation in the financial market and the steady reduction in the inflation rate are also leaving their own consistent imprint on the currency market's conditions. The rate of increase in exchange quotations this week slowed down—over the period from 17 through 23 March, the dollar's exchange rate on the Moscow Interbank Currency Exchange [MICE] rose by 89 points (1.87 percent) and reached the level of 4,856 rubles [R] to the dollar yesterday (over last week's corresponding period, the quotations increased by 2.76 percent). As before, the German mark's situation in the exchange market remains much less predictable. However, its fluctuations this week, most likely, were a consequence of the change in the trading mechanism.

The change in the activity of the currency market's participants this week was quite traditional in nature—a certain increase at the week's beginning (the peak of the transaction volumes came on Tuesday) and the usual slump toward its end. In particular, in yesterday's MMVB [MICE] trades, the demand for currencies declined in comparison with the preceding session by \$18.66 million and amounted to \$65 million. The dynamics of the volumes of the initial orders to sell currencies were similar—the supply, which declined by \$17.85 million, was at the level of \$50.98 million yesterday. The resultant difference between the supply and the demand has traditionally almost always been covered by the Central Bank—according to the Ratex Agency's report, of \$14.02 million, the TsB [Central Bank] paid off \$14.01. The Central Bank added these funds for sale at the final exchange rate, closing the trading at the level of R4,856 to the dollar. Thus, the increase in quotations amounted to 15 points yesterday, which is this indicator's minimum figure for this week.

The total turnover of yesterday's trading fell in proportion to the reduction in demand—the net transaction volume declined by \$18.67 million and amounted to \$64.99 million. On the other hand, the actual sales volume increased almost by a factor of 2 (by \$5.82 million) and was fixed yesterday at the level of \$10.80 million, which, nevertheless, does not seem like a significant amount compared to the average volumes.

The reduction in the rate of increase for the dollar's exchange rate is quite natural, considering the stability of

the situation in the financial market as a whole. It is also possible to point to market condition reasons, one of which is the active sale of late by banks of currency both on the exchange's market and the market outside the exchange. Incidentally, the close interrelationship between the currency market and the interbank credit market becomes apparent in this—the dollar dumping, in the opinion of the banks' dealers, dictates the need to cover the positions for "short-term" credits which have a higher yield in comparison with the currency assets.

In any event, over the course of the week, the quotations of direct interbank currency transactions fell steadily, at first coming close to the exchange's quotations and, yesterday, even sinking below the exchange's indicators. It is obvious that the Central Bank also exerted the basic influence on this process, however, the trend toward a convergence of the quotations (which excludes the possibility of effective arbitrage) is natural in and of itself under the current conditions. In the dealers' opinion, if an emission of ruble assets into the currency market does not occur soon, the drop in the interbank quotations will continue. Although a possible lowering of the credit interest rates may exert a mediating influence on the increase in the profitability of currency investments. However, in any event, the preservation of the close connection between the rate of increase of the dollar's exchange rate and inflation is hardly worth questioning.

The German mark's exchange rate, on the other hand, was not noted for smoothness of dynamics. In particular, at the beginning of this week, its changes were outwardly absolutely similar—on Monday, the German currency's exchange rate fell at once by 201 points, while it rose by almost the same figure on the following day. However, the explanation for these fluctuations can be found quite rapidly. Monday was the first day of trading using a new system (see the 21 March edition of KOMMERSANT-DAILY) and, apparently, not all the dealers had managed to adapt to it quickly. At the least, the sharp drop in the mark's exchange rate on that day is readily explained by an error by a dealer for one of the banks. This is why the situation had to be corrected on Tuesday, which was done, and the mark's subsequent dynamics no longer evokes any particular emotions.

***Former Economy Minister Nechayev Interviewed**

954F1846A Moscow OBSSHCHAYA GAZETA in Russian No 11, 16-22 Mar 95 p 5

[Interview with Russian Financial Corporation President Andrey Alekseyevich Nechayev by an unidentified correspondent, under the "Analysis and Prognosis" rubric: "Greed and Bureaucratism Are Ruining Russia"]

[FBIS Translated Text]

[OBSSHCHAYA GAZETA] Andrey Alekseyevich, the Government of Russia is celebrating its latest victory today—six billion of credit has been obtained from the IMF for the non-inflationary coverage of a portion of the

budget deficit. They are again (for the third time now!) promising the country financial stability, so as to move next year (not this year!) to investing in the economy and a rise in it. But perhaps it would be more correct to stimulate investment in production somehow right now, today, under conditions of quite high inflation?

[Nechayev] I think we are dealing with an instance where one must agree with the strategy selected by the government. Everything in life is relative, of course, and one can engage in investment to a certain extent under high inflation as well, but in principle inflation is the chief enemy of investment. Even a highly efficient investment project requires a year or a year and a half to come to fruition. The money invested in it over that time is devalued. The same money, after all, could be invested over that time in some trading or financial operations, and a solid profit obtained. One could, finally, simply invest in currency, the exchange rate of which is rising at 180 percent a year (but it rises every day, which with reinvestment of the interest obtained increases the income even more), and receive a pretty good profit through the steady American economy, without any risk at all.

Inflation must be brought down in order for money to go toward financing industry; then other segments of the financial market lose their attractiveness. Even in our unstable economy, incidentally, such a situation took shape last summer, when the rate of inflation was quite low for several months. The public, and not only the banks and other financial institutions, began to display serious interest in investment projects (there was a "demand boom" in our corporation at that time for good investment proposals that were already ready for sale), and began to invest money actively in anything solid and income-producing. The immaturity of the funds market in our country and the lack of real mechanisms for converting the savings of the population into investments unfortunately led to the fact that people put their money into various dubious companies, in most cases coming to a bad end. Only investments in housing construction, perhaps, proved to be an exception.

So the sequential strategy that has been adopted—first fight inflation, and then stimulate investment—is entirely correct. The policy of attracting private investments with the addition of state investment resources also seems correct to me. I myself was the author of the idea of mixed financing; that proposal was formulated for the first time by the Ministry of Economics at the end of 1992 and the beginning of 1993, regarding the necessity of a transition from outright budgetary financing to investment credit based on payment and return.

The next step: The state, with a minimum of direct budgetary investment, should support private investment through its own participation. Which is indeed being proposed: Today, as a rule, the investor has to first find 80 percent of the required funds, and then he can receive from the state, on favorable terms, the remaining 20 percent.

[OBSSHCHAYA GAZETA] Do you feel that such a procedure can play an incentive role? If someone has found a promising and highly profitable project and has even found 80 percent of the funds for its realization, he will be able to find the remaining 20 percent.

[Nechayev] I agree, here a good idea is excessively regulated. First, the share of state capital is too strictly defined: Why precisely 20 percent? In some cases it would probably be possible to allocate 40 percent, and in other places 10 percent would suffice. The procedure itself could look a little different as well—the state could first pledge its 20 percent for some especially important projects, which would markedly increase the attractiveness of the given project for private capital. It has unfortunately been prescribed otherwise in the presidential edict....

This is a quite promising way anyway. And if the scheme works, the very modest sum of 1.3 trillion rubles [R] allocated to it in the budget for the support of highly efficient projects could grow five times over through the involvement of private capital.

[OBSSHCHAYA GAZETA] But shouldn't the structures that have the task of finding promising projects, as well as investors, have to put in some work for this? Your corporation was created precisely for such work....

[Nechayev] We have reason to boast a little, even though to a lesser extent than we wanted, since the state has not yet given anything to anyone under this system. The corporation has also still received only part of its authorized capital, while the investment fund for the support of private investment has yet to be formed. But even under these conditions, the corporation has been able to prove the possibility of investing funds in production. We have found quite a few highly efficient projects. Literally a few days ago, for example, I signed credit documents for projects in Ulyanovsk Oblast: The Nef-teodacha MNTK intends to revive old, worked-out oil fields in order to produce oil there again.

[OBSSHCHAYA GAZETA] And who is financing that work? Who acts as investor?

[Nechayev] Basically our corporation, which, not receiving the funds for investment from the state, earns the money itself. I can cite another example of an interesting project—the creation of a port at Lomonosov (not far from St. Petersburg) at the wharves of a former naval base. We have also managed to get by there without outside investors.

[OBSSHCHAYA GAZETA] That is great, of course, I am ready to applaud you, but has the corporation not been able to find wise people who would be interested in promising ideas and who would invest their own money in them for even one project?

[Nechayev] There are examples of that as well. We have already attracted Western investors in an overall amount of approximately \$300 million—that is almost R1.5

trillion, i.e., more than was allocated by the state budget for this purpose last year. We offered one such project, associated with increased oil yields in the Nizhnevartovsk region, to Austrian investors—successfully. Also a project for the reprocessing of electronic scrap with the extraction of non-ferrous and precious metals, with the participation of American capital. Our corporation has acted in both instances in the role of financial manager, for which, strictly speaking, it was created.

[OBSSHCHAYA GAZETA] But Andrey Alekseyevich, why always the Austrians or Americans? If it is so profitable, why are Mr. Russian Businessman and Russian financiers passing up their own gain?

[Nechayev] I could cite domestic examples as well. A Petersburg firm that we are working actively with recently assumed the financing of a very interesting project—the production of sugar substitutes from syrup for the food and confectionery industries. The payback on that project is just six months, if a process line can be supplied at the prevailing levels of confectionery production or a major baking combine. The first such lines will be installed in Rostov and Petersburg. The cost of a line is just \$170,000, and it will bring in several tens of thousands of dollars each month.

[OBSSHCHAYA GAZETA] Are there many such projects in your portfolio that could be profitable, even under today's conditions of high inflation?

[Nechayev] Not many, but yes. And if the rate of inflation drops from 0.5 percent a day to 0.1 percent, an enormous group of projects falls into the category of profitable immediately.

Good, competent managers, of course, are still needed on the scene for their success. We have a project being realized, for instance, for the construction of public transit stops with built-in retail areas in Rostov-na-Donu. This is, as it were, a new type of organization for street trade—not a scattering of kiosks, but a network of small stores with a centralized and computerized supply system.

And here is what has happened in the realization of the project. We offered the manufacture of the store/stops to Rostselmash, whose leaders are complaining all over the place that they have 50,000 workers who are hanging around idle, not getting paid, and so on. You would think they would jump at a profitable offer! But Rostselmash came up with such a price that it turned out to be more advantageous to order the modules from the United States and ship them across the ocean.

[OBSSHCHAYA GAZETA] But perhaps Rostselmash has been put under such conditions?

[Nechayev] Of course, if you pile all your costs—the soccer team, the medical labor dispensary, the whole social sphere—onto a relatively small order, you get a very interesting price. But in the end they lost the order, and serious money with it.

I could cite other analogous examples associated with the placement of foreign orders at Russian enterprises. You may not believe it (for me, a former minister of economics, it was also a pleasant discovery), but there is a certain number of mills among the textile enterprises of Russia where the technological level—equipment, qualifications of the personnel—is comparable to Western level, or even surpasses it. We found 12 such knitwear mills at the request of the Germans, and they selected one—Pobeda in Vladimir. The Germans went around the mill clucking their tongues; we do not have such equipment, they said, and you have a whole line. The line, true, was not operating—it was bought with petrodollars, brought in and set up, but it is not hooked in with all the rest of the equipment.

But the machines exist, are ready to operate. They have astonishing productivity, and if you do not use junk where you should not, you can obtain knit goods of very high quality. The Germans checked to see how our knitters would work on this equipment—the results were decent: An item that is manufactured in Germany in 10 minutes took 14 minutes here. Taking into account the fact that wages here are ten times less, the cost should prove to be acceptable. But we began to come to agreement on the price, and suddenly the initial price, direct expenditures, begins to increase by ten times. The director says, all my shops are standing idle, I have to maintain a hospital, housing stock, a kindergarten, and so on. These are real problems, but what do the Germans care about his troubles?

We start to explain—do not refuse the order, even if it puts just 50 people to work. And you cannot pile all of the mill's problems onto one little order; the Germans will just go off and place the order in the Czech Republic, where there is no racket, where there is political stability, and from where the distance to Germany is ten times less!

We finally talked them out of it, they filled the order, and then wrote the Germans that in view of the increased costs and changed conditions, asked that the pay be doubled. The Germans, of course, will pay just the agreed-upon price, and the mill will never get any more orders, but it could have....

This could be called "the specific nature of Russia," like our domestic bureaucratism. The level of bureaucracy here is also simply fantastic. We are presently creating a joint investment company with the Americans and the Dutch in Moscow. A law-abiding person, I sent GKI [State Committee for the Administration of State Property] a note: I ask you, a government organization, to allow us to this and that. The Westerners consider this venture to be a channel for potential investors to whom to import our knowledge of Russia and the Western system of selecting projects. A kind of beachhead for the attraction of serious investments in the Russian economy is being created in principle.

But then I get a reply to my inquiry from the GKI: Some GKI bureaucrat has composed an enormous list of

consents that I have to obtain. And I begin to understand that a normal person in my position should immediately reject the undertaking itself, or prepare for long trudging from office to office with the distribution of an improbable quantity of bribes. I, with my reputation and contacts, can cover this path more quickly and easily, but not all of my colleagues were Russian ministers in the past.

And it is not a matter of a given bureaucrat or even of the GKI itself, but the system, the procedures and rules of the game devised by the state....

***Finance Ministry To Discontinue Issuing State Treasury Bonds**

954E0781A Moscow KOMMERSANT-DAILY in Russian 23 Mar 95 p 1

[Article by Vladislav Borodulin and Igor Trosnikov: "The Authorities Assume That there Is No Longer Any Nonpayments Problem in Russia: Minfin Refuses To Issue State Treasury Bonds"]

[FBIS Translated Text] Yesterday Finance Minister Vladimir Panskov stated that in exactly one year treasury bonds will cease to exist. Thus, to an ever-increasing extent, the prevailing opinion on Ilinka is that there is no longer any nonpayments problem in Russia. The state's indebtedness, with the adoption of the budget, will be gradually eliminated, and the reciprocal debts between enterprises is not an economic problem, but a legal one. Incidentally, a much greater influence upon the authorities' activity rate was exerted by the Memorandum on Economic Policy for the IMF, in which the authorities pledged to eliminate those unreliable securities.

Vladimir Panskov promised that in the first quarter of 1996 Minfin [the Ministry of Finance] will completely refuse to use treasury bonds to pay off its indebtedness to enterprises. The first issue of KO [short-term bonds] occurred in August 1994, and since then more than 130 emissions have been conducted, with a total amount of more than 8 trillion rubles [R]. All the emissions were intended to pay off the budget's "old" indebtedness, rather than to pay for new state purchases. The stock market perceived in a completely favorable way the new state securities which, despite the rather harsh circulation conditions (low—40 percent—rate; definite number of turnovers in the market), were in demand because of the possibility of obtaining tax benefits and the right to make settlements with the state itself on the arrears payable to the budget. The market's enthusiasm was supported also by Minfin's thoroughness—the first issue of KO was paid off with absolutely no delays.

Apparently, Vladimir Panskov's statement will not damage the market in treasury bonds that has already managed to form. The finance minister promised to fulfill all the pledges with regard to servicing the market in these securities, saying that Minfin is not planning to eliminate the KO all at the same time. According to Mr.

Panskov, those securities will be removed from the market gradually, "with the complete elimination of the indebtedness on them and with the reduction of emission to zero." But what is important for the bond owners is specifically the punctual servicing of the series of securities that are already circulating; the global plans of the emissions body interest them to a much lesser degree. Although, of course, the participants in the market will be unhappy to lose the treasury bonds. Because it will not be possible to find an alternative security. To a large extent thanks to the right to be exchanged for tax benefits and to be used as a means of payment (other state securities do not offer that opportunity), KO have been in high demand in the secondary market. According to estimates made by KOMMERSANT-DAILY, the weekly volume of operations with treasury bonds recently has been of the order of R300-500 billion, which is lower by only a small factor than the turnover of the GKO [short-term state bonds] market during the analogous period.

It is completely possible that the decision of the Ministry of Finance will play into the hand of the dealers. If the KO are removed from circulation in the first quarter of 1996, then by summer or early autumn Minfin must discontinue the issuance of the regular series of securities. Obviously, this should reduce the supply of treasury bonds in the market, and that will inevitably lead to a rise in their rate of exchange and will create favorable conditions for gambling on an increase.

In principle, Vladimir Panskov's statement, against the background of certain other events, appears to be completely logical and consistent. First of all, the government is becoming increasingly convinced in the illusion that there is apparently no nonpayments problem. The state's old debts, according to assurances given by state officials, gradually, in the course of the year, will be paid off (more than R5 trillion have been stipulated in the budget for these purposes), and the government promises not to incur any new debts. Those views have already found their embodiment in at least two governmental documents—the Memorandum for the IMF, and the program "Reforms and the Development of the Russian Economy in 1995-1997" (it will be discussed at tomorrow's session of the government). In the first document, the government easily promised the IMF to remove from the market "unreliable securities" (from the point of view of the IMF, the unreliability of the KO lies in the fact that the abuse of "quasi-money" creates a danger for the government's anti-inflationary policy). In the three-year economic program the government went even farther—it equated its own bonds to bearer shares and certificates of deposit of shares of private emissions bodies, in connection with which it unconditionally promises to eliminate all such securities.

'Concept' on Equalizing Economic Conditions

Decision Ratifying 'Concept'

954E0775A Moscow ROSSIYSKAYA GAZETA (ECONOMIC UNION Supplement p 5) in Russian 25 Mar 95 First Edition

["Decision Concerning the Concept of the Reciprocal Legal Regulation of Economic Relations and the Equal-

izing of the Conditions of the Economic Activity of the Member States of the Economic Union"]

[FBIS Translated Text] The Council of the Heads of Government of the Commonwealth of Independent States has decided:

1. To approve the Concept of the Reciprocal Legal Regulation of Economic Relations and the Equalizing of the Conditions of the Economic Activity of the Member States of the Economic Union.

2. The Legal Consultative Council of the Participating States in the Commonwealth, within a one-month period, is to prepare and submit for the approval of the Presidium of the Interstate Economic Committee of the Economic Union the coordinated recommendations with regard to the procedure for carrying out projects and preparing documents on the reciprocal legal regulation of economic relations and the equalizing of the conditions of the economic activity of the member states of the Economic Union.

Concluded in the city of Almaty on 10 February 1995 in one true copy in Russian. The true copy is kept in the Archives of the Government of the Republic of Belarus, which government will send to each state that has signed this Decision its certified copy.

Text of 'Concept'

954E0775B Moscow ROSSIYSKAYA GAZETA
(ECONOMIC UNION Supplement p 5) in Russian 25
Mar 95 First Edition

["Concept of the Reciprocal Legal Regulation of Economic Relations and the Equalizing of the Conditions of the Economic Activity of the Member States of the Economic Union"]

[FBIS Translated Text] The Concept of the Reciprocal Legal Regulation of Economic Relations and the Equalizing of the Conditions of the Economic Activity of the Member States of the Economic Union (hereinafter the "Concept") represents the totality of the coordinated views of the member states of that union concerning the legal foundations for regulating the economic activity of their managing subjects, and the bringing closer together of the national legislation of those states for purposes of implementing the principles in the Treaty on the Creation of the Economic Union.

The Concept includes the basic goals and principles of that activity, and the organizing and procedure of conducting the work.

The Concept was developed on the basis of:

1. The Treaty on the Creation of the Economic Union (Moscow, 24 September 1993);
2. The Agreement on the annexation of Ukraine to the Economic Union with rights of an associated member (Moscow, 15 April 1944);

3. The Agreement on principles of bringing closer together the economic legislation of the member states of the Commonwealth (Bishkek, 9 October 1992);

4. The Basic Areas for bringing closer together the national legislations of the member states of the Commonwealth, which were approved at a session of the Interparliamentary Assembly (Bishkek, 15 September 1992);

5. Bilateral and multilateral agreements in various areas of cooperation.

The member states of the Economic Union feel that the reciprocal legal regulation of economic activity is one of the most important conditions for the formation and effective activity of the Economic Union, and for preserving, restoring, and developing the objectively necessary ties among their managing objects.

Purpose of the Work

The reciprocal legal regulation of economic relations and the equalizing of the conditions of the economic activity of the member states of the Economic Union are carried out for the legal support of the formation of conditions for the stable development of the economy of the member states of the Economic Union, in the interests of raising the population's standard of living, the gradual creation of a common economic space on the basis of market relations, and the granting of equal opportunities and guarantees to the managing subjects of the member states of the Economic Union.

Basic Principles

The reciprocal legal regulation of economic relations and the equalizing of the conditions of economic activity is supposed to make it possible:

- to take all steps to expand and deepen the complete mutually advantageous economic relations of the member states of the Economic Union and their managing subjects;
- to carry out the gradual integration of the economies of the member states of the Economic Union with no detriment to the sovereignty of each state that is part of it, and with a consideration of its real capabilities on the basis of the respect for the generally accepted international norms;
- to create favorable conditions for the free movement of goods, services, manpower, and capital, for consolidating the direct ties and cooperative efforts among the managing subjects, and the activity of the national and transnational economic structures;
- to guarantee the protection of the consumers' legal interests, to promote the consistent rise in the population's standard of living in the member states of the Economic Union;

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—to carry out, on the basis of a joint analysis of the state of the economies and the rate of the economic reforms in each state participating in the Economic Union, coordinated measures in the most important spheres of interstate activity: transportation, communication, energy support, protection of the environment, the prevention and elimination of the consequences of emergency situations, foreign-economic activity, scientific-technical progress, state standardization, and the protection of objects of the intellectual property law.

Work Topics

Proposals concerning questions of the reciprocal legal regulation of economic activity and the conditions for carrying it out are prepared by proceeding from:

- the content of the agreements signed within the framework of the Economic Union;
- the agreement drafts that have been planned for development;
- the tasks that are linked with the carrying out of economic cooperation in various areas of activity.

The set of topics and the sequence of the projects are determined by the Legal Consultative Council of the Participating States in the Commonwealth, with the involvement of the CIS Scientific-Consultative Center for Private Rights.

The set of topics and the procedure for conducting projects and preparing documents on the reciprocal legal regulation of economic relations and the equalization of the conditions of the economic activity of the member states of the Economic Union are approved by the Interstate Economic Committee of the Economic Union.

In order to execute the projects, use will be made of information concerning the legislative acts that have been adopted in the member states of the Economic Union with regard to problems of economic activity within the confines of the interstate system of legal information.

*Volskiy on New Course in Economic Reforms

954E0674A Moscow TRUD in Russian 10 Mar 95
Saturday Edition p 10

[Interview with Arkadiy Volskiy, president of the Russian Union of Industrialists and Entrepreneurs (RUIE), by Arkadiy Lapshin; date and place not given: "One Needs to Come to One's Senses"]

[FBIS Translated Text]

[Lapshin] Arkadiy Ivanovich, how do you judge the place of the RUIE in the public life of today's Russia?

[Volskiy] By their inner dynamics and character the stormy processes which Russian society is now experiencing are more complex and diverse than the subjects of

the keenest sports contests. For this reason I would not risk arranging their participants by the numbers as, let's say, in professional tennis. I will say only that the place, role, and direction of the activity of the RUIE are determined by the objective status of commodity production in society. The fact is that the state of the health of any economy depends precisely on the activity of those who produce.

RUIE's most important task is protection of the interests of industrialists and entrepreneurs. I share the point of view that lobbying for needed draft laws is an instrument for the protection of the interests of production and business that has been developed over time.

At all stages of the RUIE's existence it has centered and is centering paramount attention on law-making activity. In other words, we have attempted to surmount the breakdown of our legal system in order to proceed at last to a civilized market economy. More than ten drafts of various legislative acts and enforceable agreements have been prepared with our participation in which we defend the interests of employers, categorically speak out against the abridgement of the rights and social guarantees of employees, and insist on the expansion of their participation in the management of enterprises and the distribution of revenues.

[Lapshin] It is quite often said about the RUIE that it supposedly defends primarily the interests of the state sector.

[Volskiy] I've had to listen to this "accusation" more than once already. Obviously, someone deliberately doesn't notice that the greater part of the members of the RUIE are precisely joint-stock enterprises and companies and their associations. Yes, in its first moves the union stood up for the defense of the country's director corps and it is proud of this, whatever labels they have stuck on us. And, indeed, in certain newspapers we have been called antimarketeers and lobbyists for "the red directors clinging to the old system." This is the social prohibition of those whom we criticized for "shock therapy."

In fact, even long before the "Gaydar program" Russian industrialists and entrepreneurs spoke out resolutely against the monopolism of the administrative-bureaucratic system and for the expansion of economic independence and the development of healthy competition.

[Lapshin] What do you read into the concept "liberal reforms?"

[Volskiy] First of all—carrying them out taking Russian characteristics into account. That is why I call Gaydar, with his plans to "redirect" the minds of the Russians in a year, a "romantic," to put it mildly.

I think that it is categorically impossible to rush headlong to the unorganized force of market liberalization with our super-monopolized and deformed economy.

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This is fraught with the danger of landing the ship of the reforms on the reefs of inflation, the collapse of production, and the drastic exacerbation of the social and economic situation in the country.

We have spoken out for and do speak out for state regulation of the transition to the market, for the liberal character of the reforms being carried out, and for the socially oriented nature of the economy. In particular, the proposal adopted at the last meeting of the RUIE's board regarding the creation of a Russian Federation Federal State Contract System can be considered a good illustration of RUIE's position. It entails the introduction of active state regulation of economic management on the base of the formation of a state competitive goods and services market. In the USA and a number of other countries the federal contract is a very important instrument of state economic management. It encompasses from 40 to 60 percent of the market. I am sure that enormous potential for the state regulation of the proportions and structure of the national economy is concealed here.

[Lapshin] It would be interesting to learn your appraisal of the possible development of the situation in the country.

[Volskiy] With regret I have to state that recently the temperature of the political situation in Russia has begun to rise. This is natural to a certain degree. The fact is that in our politics, with all the multiplicity of parties, movements, factions, etc., an intensification of the polar confrontation between those in power and the forces supporting them, on the one hand, and the opposition on the other is evident. Most often it is deconstructive in nature and excessively radicalized. Not the least of all it occurs, I think, because we have essentially no powerful, organized and united center, capable of a rational policy and oriented not to opposite social poles but to defense of the interests of the broadest strata of society and to alleviate the acuteness of political passions.

[Lapshin] And you want to be "the center."

[Volskiy] That wouldn't be bad, of course. However, already last year I said that centrism will not take root in Russia. A prolonged period is required for that. Centrism is not the appeasement but the negation of extremism—both of the left and of the right.

[Lapshin] What do you think about events in Chechnya?

[Volskiy] Russian soldiers are fighting on both sides in Chechnya. Indeed, Dudayev's militiamen have been conscripts in the Soviet army already. And the weapons both there and here are one and the same. I wouldn't like to believe that someone organized the Chechen war especially. Otherwise the meaning of life is lost. But if that isn't so, I ask myself a question. Why was nothing undertaken for three years. If I had been in a position of power, in 1991 I would have taken a plane and flown to Grozny. And said: lads, what do you want?

But now, in my view, one ought to raise the level of the negotiations before it's too late. Moreover, from the level of field commanders to the level of the politicians. The fact is that in the history of mankind any war was always concluded by a peace.

[Lapshin] The greater part of Russian society is now living through a difficult period of trouble (smuta) and some spiritual torpor. This condition has affected both the parties and the political movements. In your view, Arkadiy Ivanovich, what or who can disturb or end this torpor?

[Volskiy] Yes, society is now breaking down. Moreover, the breakdown is taking place in all spheres. It has affected all areas—cultural, spiritual, material, and production.

I very often have to travel around the country. Recently I have been in Irkutsk, Samara, Saint Petersburg, and Murmansk. And I want to say that not only Moscow is seething, but also the provinces. With my own eyes I have seen how it seethes when coffins arrive from Chechnya. I flew to Samara and they brought in 16 coffins at the same time.

However, there are two features which one must note. First of all is political apathy. It is related to the fact that nobody believes anyone any longer. Of course, this is related to many causes and it is not just the democrats that are guilty. However, apparently, all the important political events of recent years—the collapse of the Soviet Union, the shooting up of parliament, the carrying out of reforms without taking Russian characteristics into account—all this lies heavily on the consciousness of the people.

On the other hand, another tendency is being observed, which can be designated by the question, would it not be even worse if the administration of the country is altered in some way.

These are the two tendencies, overlapping one another, that determine the essence of the people's behaviour.

While the USSR and the CPSU receded into non-existence, a replacement for that ideology simply hasn't been found. And three years have been wasted on criticizing the previous system.

As far back as 1991 I said that one cannot tolerate a situation in which the country has no strategic goal. Where we are going—that's the most important question. Remember in the Bible such an expression: "Do not ask them from whence they come, but ask them where they go."

Our leaders asserted that Russia is moving towards a happy capitalist society. However, this catchword has not come true and does not permeate the consciousness of the majority of the people.

[Lapshin] In your opinion, what do we need to do if only to recover the production potential of 1991?

[Volskiy] In comparison with 1991 we have collapsed practically in half in terms of production. Recovering this level in the current century doesn't threaten us. One needs to secure 15 percent a year growth to do that. Of course, this is not a realistic figure for us, especially if one considers that a production decrease is already incorporated in the budget. And I think that it will be no less than 15 percent in 1995 and this in addition to the 50 percent by which we have already contracted. And then what, a blind alley?

I watch the moods of the director corps very carefully. They are becoming completely different people. People, the majority of whom have simply lost heart.

Under such conditions, naturally, some survive, some utterly come to naught. However, one cannot forget that all this is taking place against the background of a drop in the standard of living.

I do not at all believe that today some government will be able to restore the devastation in a short time. I don't believe those who undertake to do this quickly. One can find in world history many examples of how a country sunk into a crisis and nevertheless got out of it. The same United States. In the years of the "Great Depression" production fell 48 percent there. Precisely then Roosevelt in a little over 20 days locked himself up with Congress. And at that closed session they thought about what to do.

And three laws were passed. It's interesting now to recall this. The first law which Roosevelt adopted was the law "On Honesty." It permitted putting an end to those defects of American life which we see now in American films of that time. The second law—"On the Protection of National Industry"—and the third—"On the State Market for Goods and Services." If all this is not an example for our economists, then I don't know what more arguments need to be advanced...

We have in the country such a one, let's say, of a ripe age, Academician Fedorovich—he's 80 years old. He spent 17 years in the United States and is a professor of a number of American universities. I have asked him to prepare an analytical study regarding the experience of the USA's getting out of the "Great Depression." From the organization of public works to legislation. In the light of this experience I have written a letter to our president, to Chernomyrdin, and to the Federation Council. The President has instructed his services to prepare something similar. First of all about a federal state contract system and a state market for goods and services.

Unfortunately, today I cannot say that I see any prospects for society without a change in social policy, without a change in the practice of carrying out the reforms, and without a change in economic policy.

A serious correction of the reforms is needed. First of all—to reject or escape from the pressure of the "Chicago

boy-wonders" to construct a Texas model of capitalism in Russia. One needs to come to one's senses and use what is characteristic of our country. You see, we have 89 subjects of the Federation and 19 independent republics. Nowhere in the world is there such a state. This characteristic of Russia needs to be taken into account.

***Analytical Report on Privatization Results, Prospects**

954E0811A Moscow ROSSIYSKAYA GAZETA
(BIZNES V ROSSII SUPPLEMENT) in Russian 31
Mar 95 p 3

[Report by Goskomimushchestvo Rossii (RF State Committee for the Administration of State Property) published in abridged form: "Privatization: Results and Prospects—Analytical Report on the Results of Privatization of Enterprises in 1994 and Measures To Raise the Efficiency of Privatization in Reforming the Russian Federation Economy"]

[FBIS Translated Text] In reality privatization in Russia was begun in 1992. Despite the numerous problems, both political and organizational-methodological in character, by early summer 1992 Goskomimushchestvo had managed to develop an integral privatization ideology which was ratified by the Russian Federation Supreme Soviet in June 1992 in the form of the State Privatization Program.

Both critics and supporters of voucher privatization, which was completed on 30 June 1994, agree on one thing: the quantitative success of the mass privatization program is indisputable and obvious. The basic task, forming a tier of private owners, was accomplished. More than 30 percent of the population became owners of the stock of privatized enterprises and voucher investment funds; of that group only 5 percent intend to sell that stock in the future.

Thanks to the introduction of privatization vouchers and the consistent implementation of market principles in the privatization program, the following things had been accomplished in the Russian Federation by 1 January 1995:

112,625 enterprises had been privatized, which is 47 percent of the total number of state and private enterprises, and the total value of the privatized property is 2,357,611,000,000 rubles [R];

a corporate sector of the economy had been formed; it includes 25,189 joint stock companies;

a market for stock of privatized enterprises had been created; at the present time it is second in terms of volume of trade turnover after the state securities market;

investment funds (that is, voucher investment funds) had been formed and the foundation had been laid for

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creating a system of institutional investors whose participation in managing joint stock companies is the main factor stabilizing their activity.

More than half of the gross national product began to be produced in the nonstate sector as a result of privatization.

"Small Privatization"

As of 1 January 1995, in Russia as a whole the proportion of privatized enterprises of trade, public catering, and domestic services totaled more than 75.2 percent; this included 71.7 percent for trade enterprises, 78.3 percent for public catering enterprises, and 80.6 percent for domestic services enterprises.

As practice has shown, sale based on a competition is the most effective means of privatizing enterprises which makes it possible to limit the possibility of respecializing the objects after they are privatized and to preserve the number of jobs for a certain time. Consequently, the proportion of competitions as a means of small privatization has substantially increased during the past period. Thus, as of 1 January 1995, the proportion of objects privatized on the basis of competitions, including investment competitions, was 41 percent of trade enterprises; 47 percent of domestic services enterprises; and 31.5 percent of public catering enterprises.

Members of the labor collectives of privatized enterprises were the main buyers (more than 65 percent) of the objects of "small privatization."

Despite the fact that against the backdrop of the overall decline in production and the nonpayments crisis, it is fairly difficult to see the effect of privatization in pure form, its positive features were clearly manifested in many sectors of the economy.

According to data of Goskomstat Rossii [RF State Statistics Committee], in the first half of 1994, the profitability of the work of private enterprises of retail trade was 4.5 percent while the profitability of state enterprises was 0.5 percent; the cost levels were 14.6 percent and 20.9 percent, respectively.

During this same period, total losses from the sale of output for public catering enterprises of all forms of ownership was R71.5 billion. Here state-owned enterprises account for more than 60 percent of this sum, while enterprises of the private sector received R10.4 billion in profit, or 1.5 percent of trade turnover.

Formation of Joint Stock Companies

The overwhelming majority of large and medium-sized enterprises were privatized by selling stock of open-type joint stock companies created on their basis.

The register of enterprises to be converted into joint stock companies overall includes 33,171 enterprises. Of them 25,189 or 78 percent have already been registered as joint stock companies; for 27,512 enterprises (83

percent), committees for the administration of state property have made the decision to convert them into joint stock companies; and privatization plans have been approved for 26,690 enterprises (80.5 percent).

The process of forming joint stock companies was most vigorous in sectors such as construction, machine building and metal working, transport and communications, and the light, food, and wood processing sectors.

The main variant of advantages the labor collectives use in converting enterprises into joint stock companies is the second variant, which envisions the possibility of members of the labor collective and persons like them buying up to 51 percent of the stock of the enterprise being privatized. The labor collectives of more than 73 percent of the enterprises being converted into joint stock companies chose this method.

The unprecedented advantages granted to members of labor collectives made them the predominant owners of more than 65 percent of the privatized enterprises. However, the practice of their participation in managing enterprises proved that in most cases workers are extremely ineffective owners, and in reality these advantages came down to the possibility of reselling the stock at a profit.

As for securing blocks of stock to state ownership, according to Goskomstat Rossii data, in 1992-1994 decisions were made to secure blocks of stock equal to 51 percent to state ownership for 1,976 state and municipal enterprises, while for 1,004 enterprises decisions were made to release stock during the "Golden Share" issue; these were 7.9 percent and 4.0 percent, respectively, of the total number of joint stock companies.

According to data of the Federal Administration for Insolvency (Bankruptcy) Cases, the proportion of state enterprises which following the established procedure were declared insolvent and declared to have an unsatisfactory balance structure was 1.5 times higher than the same proportion of joint stock companies where less than 50 percent of their capital belongs to the state. Among the latter, the proportion of enterprises which promptly restored the balance structure after they were declared insolvent is also substantially higher. The results of a sample survey of enterprises in a number of territories also confirm this.

Structural Transformations

As practice has shown, those holding companies which were created by transforming major enterprises, separating out structural subdivisions from them, or on the base of those associations which consisted of enterprises which were legally independent but indivisible in terms of production (so-called "production holding companies") best meet the challenges of promoting enterprise cooperation and implementing a coordinated investment policy. At the same time, however, there are some successfully operating holding companies in the timber industry sector.

The creation of vertically integrated oil companies which in accordance with generally accepted world practice combine enterprises for extracting, refining, and selling oil and petroleum products should be considered the most successful project in the area of structural transformation of individual sectors. The process of the formation of these companies, which at the present time is in the completion stage, makes it possible not only to improve the manageability of enterprises and create the prerequisites for investment, but also leads to the creation of a real competitive all-Russian oil and petroleum products market whose subjects prove to be competitive even on the world market.

At the same time, however, the companies established through consolidating state blocks of stock which did not take specific steps thereafter to increase them by acquiring the stock of subsidiary enterprises are gradually losing their significance as formative holding companies.

In the process of the creation of holding companies, there are some trends which have an adverse effect on the privatization process and lead to distortions in state industrial policy. Among them, in particular, is the drawn out process of privatization when the stock of holding companies is not sold for a long time.

Use of Vouchers

According to data submitted by regions, 151.45 million privatization vouchers issued in 1992 were put into circulation on Russian Federation territory and 148.58 million have been removed from circulation; this constitutes 98 percent of the total put into circulation and includes 25.99 million (17.2 percent) collected by closed subscription, 114.69 million collected at voucher auctions (75.7 percent), and 7.9 million (5.2 percent) collected by other means. There are 2.87 million vouchers (1.9 percent) remaining in circulation.

In all 18,462 enterprises were sold at specialized voucher auctions during voucher privatization; their capital stock totaled R1,421,157,000,000 and of that, capital stock sold totaled R284.870 billion. In this case the average weighted block of stock offered for sale was 20 percent instead of the 29 percent envisioned by normative documents.

There were 383 enterprises sold at interregional and interregional all-Russian auctions, and of them 312 enterprises were sold through the system of the All-Russian Coordinating Center for Voucher Auctions.

Enterprises sold through the All-Russian Voucher Auctions system included electricity production enterprises (stock worth a total of R7.4 billion were offered), fuel industry enterprises (R23.5 billion), ferrous metallurgy enterprises (R12.2 billion), nonferrous metallurgy and nonferrous metal processing enterprises (R5.1 billion), chemical industry enterprises (R3.2 billion), petrochemical industry enterprises (R0.8 billion), automotive

industry enterprises (R10.6 billion), transport enterprises (R2.3 billion), and light industry enterprises (R102 billion).

Capital Received From Privatization

According to data of Gosnalogsluzhby Rossii (State Tax Service of the Russian Federation), R1.1 trillion worth of capital was received during the time privatization was underway. Of that R198.8 billion went to the federal budget and R912.7 billion went to the consolidated budget. This included R734.7 billion worth of capital obtained from privatization in 1994; of that R113.5 billion went to the federal budget and R621.2 billion went to the consolidated budget.

Potential revenue from the sale of state property in 1995 comes to R24.4 trillion, which includes R14.3 trillion from the sale of some blocks of stock of enterprises of the fuel and energy complex as well as sectors such as the extraction and processing of precious metals, river and air transport, chemical industry, and machine building. Under existing norms for distribution of revenue, R2.4 trillion should go to the federal budget. In preparing the draft federal budget for 1995, various methods were examined for increasing revenue from privatization for the income part of the budget which would enable the level of income to reach R9.5 trillion.

Development of the Stock Market

At the present time, the market for stocks and bonds of privatized enterprises is second in terms of volume of trade turnover after the state securities market. The former market is also a highly dynamic market. The total volume of stock issued for joint stock companies formed under privatization came to more than R37 trillion in shares. The most important type of securities handled on this market is the stock of enterprises, that is to say, securities which give their holder the right to participate in managing the enterprise and to receive dividends based on the results of its work.

The existence of a large number of joint stock companies creates the condition for greater volumes of trade in stock of privatized enterprises, while the moderate starting price of the stock creates the condition for the stock's competitive value to rise.

According to many emissions bodies, prices for stock multiplied during the year (sometimes 5- to 10-fold computed in dollars).

It was precisely because of privatization that Russia made a powerful leap in capitalizing its economy with less than 1-10 percent of gross national product and surpassed all Eastern European countries except Czechia, although at present it is still drastically behind the most developed countries.

Even so the Russian market continues to have significant potential for a continued rise in stock prices. The main

condition for ensuring this growth is attraction of additional investments, including foreign investments. It was precisely the 3 billion dollars in foreign portfolio investments in 1994 that to a substantial degree led to the explosive growth that occurred in the Russian securities market.

Voucher investment funds became one of the most dynamically developing sectors of the stock market. Voucher investment funds collected one out of three privatization vouchers.

In the period of voucher privatization in the Russian Federation, more than 646 licensed voucher funds were created; of them 27 funds have capital stock of more than R10 billion. There are 1.5 to 5 funds per 1 million inhabitants in various regions. The largest number of funds were created in Moscow and Moscow Oblast—200, and in St. Petersburg—47.

The rapid growth in voucher investment funds in 1993 was followed by stagnation in growth in the first half of 1994, and in the second by a 7 percent decrease in their numbers caused by the start of the process of their gradual consolidation.

Most funds did not pay dividends based on 1993 results. This was the result, first, of using dividends to acquire stock of the most attractive enterprises being privatized (if the fund's stockholders could be convinced of this), and secondly, because of the circumstance that the extent of dividends of any fund is directly dependent on the profitability of those enterprises whose stock they have acquired and at the present time those enterprises are completing only the first steps on the path of development as truly nonstate enterprises.

Attraction of Investments

The first stage of privatization did not raise the problem of attracting investments as a paramount task, although legislation did in fact envision the sale of stock of joint stock companies based on investment competition as one of the methods of privatization. Therefore at first, and this includes during the period of voucher privatization, a picture of overall sluggish investment demand was observed.

Thus, 547 or 4.3 percent of 12,798 competitions conducted in 1993 were investment competitions, while the corresponding figures for 1994 were 261 or 4.7 percent of 5,511. This was fostered by restrictions on the size of blocks of stock offered at investment trading sessions, the granting of large advantages to labor collectives, and in addition the failure to include the parcels of land under privatized enterprises in the privatization process.

At the same time, however, the shares of stock of joint stock companies created during the privatization process are exceptionally attractive securities in the eyes of portfolio investors. Thus, since the start of 1994, the

total volume of foreign portfolio investments in the stock of Russian privatized enterprises came to about 2 billion dollars.

According to experts' estimates, during the period of voucher privatization, foreign investors acquired around 10 percent of the stock of privatized enterprises at auctions and investment competitions. No clear picture of the sectorial structure of the interests of foreign investors has taken shape yet.

In 1993-1994, privatized communications enterprises attracted investments worth a total of R867.7 billion and 417.0 million dollars.

At the same time, however, orders of Western firms to buy stock of Russian privatized enterprises recently declined in January 1995 to less than one-twentieth as compared to the August 1994 level. In August 1994, which was the peak of foreign investments, the volume of orders reached 500 million dollars, in November it declined to 300 million dollars, and in December to 100 million dollars, but in January 1995 it totaled only 20 million dollars.

Because of the sharp drop in foreign portfolio investments (they began to fall in the autumn of 1994 and in December-January they had dropped to almost nothing), as well as the diversion of a substantial part (up to 50-60 percent) of citizens' savings to hard currency given the accelerated inflation in October-December 1994, the prices of the stock of most of the most important emissions bodies dropped sharply in the fall of 1994. Unfortunately, this process continued throughout December of 1994 too.

Some of the main reasons for this drop were the instability of the political situation, discussion of questions regarding the possibility of nationalizing some of the privatized enterprises, and in addition the Central Bank's letter which required nonresidents to obtain a license for every deal involving the securities of Russian emissions bodies, which can completely shut off the narrow stream of foreign and Russian investments.

Privatization of Real Estate Objects

According to data from statistics (form 3-zem.) introduced starting in 1993, 1,706 parcels of land with a total area of 19,590 hectares were sold to privatized enterprises in 1993. This includes 989 parcels 1,508 hectares in area in cities and villages. Sale prices ranged from R0.5 to R360 per square meter in unpopulated areas and from R500 to R61,500 in cities and villages. The total amount of capital from the sale of land was about R30 billion.

According to data obtained from 75 regions of the Russian Federation, 3,235 objects of real estate had been sold as of 1 November 1994. Unoccupied (unused) buildings and structures account for a large part of the sales (99.5 percent); for these legislation envisions sale by auction. The sale of leased objects (0.4 percent) is much

slower because of the obvious unwillingness in local areas to sell them by the methods established in the Fundamental Provisions.

Purchasing of land parcels under privatized enterprises is an important feature in the formation of the real estate market. By acquiring ownership of a parcel of land, an enterprise has a real opportunity to attract investments as well as utilize undeveloped parcels more effectively. But even so, the sale of land parcels constitutes 0.1 percent of total sales (Saratov Oblast, Krasnodar Kray, Orenburg Oblast, and Ivanovo Oblast). Slightly more than 2 percent of the joint stock companies became owners of land parcels.

The main reasons are the inadequate normative base regarding questions of demarcating the rights of ownership to land and the legal basis for registering real estate objects, the absence of a land cadaster, and the lack of interest of local organs and organs of local self-government in selling land parcels, since the present taxation system does not envision a connection between the tax rate and the efficiency of the land parcel's use, which makes it wiser to rent out the land parcel rather than sell it (from the standpoint of local budgets).

At the same time, however, by mid-1994 more than 84 percent of the joint stock companies had expressed a readiness to buy up land parcels.

In light of the increase in the normative price of land to 200 times the land tax rate and the authorization for organs of executive power to increase this normative price to 400 times the tax rate (Russian Federation Government Decree No 1,204 "On the Procedure for Determining the Normative Price of Land," dated 3 November 1994) and taking into account the possibility of applying the coefficient 3 envisioned by the fundamental provisions of the state privatization program, the purchase price of land is actually 800 to 1,200 times the amount of the land tax.

After the purchase value of land was established at this level, more than 90 percent of the petitions to buy land parcels under privatized enterprises were withdrawn by the petitioners.

Basic Features of the New Stage of Privatization

The second stage of Russian privatization which began on 1 July 1994 is qualitatively new in nature. It is based on switching from the system of sale in most cases at a purely symbolic price, including through the mechanism of privatization vouchers, to the system of sale at market-determined prices.

Taking into account the creation of the sociopolitical foundation of privatization, the new stage of privatization demands that much emphasis be switched from the sociopolitical sphere to the economic sphere based on continuity with the principles adopted when privatization was being implemented in the Russian Federation.

The most important challenge which is being met in this stage is creation of the essential conditions for forming efficient "active" owners.

The significance of budget revenue from privatization is also rising drastically.

In relation to privatization proper, this above all means switching from accelerated "privatization for the sake of privatization" as the quantitative base of the reforms to relatively slow privatization focused on restructuring and investments. In other words, the new privatization model must include the two key ideas which define the technique of at least "large" privatization: ensuring the investment orientation of sales, and providing the investor with an opportunity to acquire a controlling block of stock during the primary placement of the stock.

Two types of property belong to the main objects of the new stage of privatization: state blocks of stock in enterprises which have been and are being privatized, and objects of real estate, including the land parcels of privatized enterprises.

Priorities

In summarizing the proposals of regions and federal organs of executive power, Goskomimushchestvo Rossii deems it necessary to define the following priorities of privatization policy in the new stage of privatization:

1. Reducing the prohibition and restriction lists of the State Privatization Program.

2. Raising revenue for all levels of budgets.

To do this it is necessary to identify blocks of stock which are improperly secured to federal ownership as well as those improperly transferred to the assets of holding companies and to transfer them following the established procedure for sale to the appropriate property funds.

3. The question of privatizing real estate, including land parcels under privatized enterprises, is one of the most important priorities.

It is essential to work out a detailed description of the procedure for selling objects of the nonhousing fund which have been rented out, solve the problem of demarcating the rights of ownership to land based on levels of power, and divide land into land needed by the public and commercial land (land subject to sale).

4. In order to attract major investors, sell the stock of joint stock companies being created on the base of state (municipal) enterprises in blocks which constitute at least 25 percent of the capital stock.

5. Development and support of a system of investment competitions introducing a mechanism for protecting "outside" investors of new joint stock companies with preferential taxation and the right to the land parcel.

6. Attraction of foreign investments.

7. Realization of post-privatization support (above all of enterprises which have undergone voucher privatization, which can also be considered compensation for not attracting investments during this process), including by means of: involving land parcels and other real estate, including leased, in the privatization and post-privatization process; ensuring the attraction of additional investments in the privatized enterprise through security operations with real estate; and forming the appropriate market.

8. Management of state property. Regardless of the rate of privatization, the state sector will play an important role in the economy for a long time yet.

Analysis shows that all enterprises, regardless of the form of ownership or sectorial and other features, have the same status defined above all by the laws of the Russian Federation whereby no state enterprise is responsible for the state's obligations just as the state is not formally responsible for their debts and all state enterprises have the right of full economic management. These provisions either do not correspond with reality or create conditions whereby the owner's normal control over the use of the property which belongs to him is made impossible even when the need for such control is perfectly obvious. This allows us to suggest that it has become acutely necessary to carry out the most serious reform of state enterprises in Russia.

The edict of the president of the Russian Federation and the Statute on Government Enterprises which was submitted for approval and developed by Goskomimushchestvo Rossii is a most important solution in this direction. We must formulate a general concept of management of state property which envisions assigning the functions of management to federal ministries and departments (for federally-owned enterprises) and territorial organs of executive power (for state-owned enterprises of the subjects of the Russian Federation), above all in strictly state sectors of industry (railway transport, atomic power engineering, and the like).

9. Resolution of questions of privatization of agricultural land. In this sphere, after publication of the Russian Federation Government decree disseminating the experience of Nizhniy Novgorod Oblast, Goskomimushchestvo Rossii intends to expand this process in those oblasts where the heads of administration and the leadership of regions are prepared to realize these principles of privatization in agriculture.

10. Support of the social sphere during privatization of enterprises. In order to support objects of the sociodomic sphere, both those on the balance of privatized enterprises and those transferred to municipal ownership, measures must be developed and realized to involve a proportion of investments, including foreign investments, as well as a system of municipal loans in the development of the sociodomic sphere. The process of

transferring objects of the sociocultural and housing and municipal services spheres from joint stock companies formed in the process of privatization to the balance of newly created municipal enterprises for servicing and repairing these objects must be completed; this presupposes allocating some budget capital.

11. Development of the securities market. Above all the focus must certainly be skewed toward developing and reinforcing the appropriate infrastructure of the securities market in light of the future operation of privatized enterprises.

12. Bankruptcy. A plan for cooperation among committees for managing property, property funds, and territorial agencies of the Federal Administration for Insolvency (Bankruptcy) Cases must be worked out. It is impossible to identify enterprises which are a burden to the economy overall and to resolve key problems of the economy (nonpayments, reconstruction of enterprises, and governmental subsidies) without a correctly organized process for working with insolvent enterprises and without improved bankruptcy procedures.

The analysis of comments and proposals of federal organs of executive power and organs of power of the subjects of the Russian Federation which has been done enables us to draw the conclusion that a large number of additional normative enactments regulating legal relations both in the area of administrative law and in the area of criminal law must be developed and adopted.

In accordance with State Duma Decree No 378-1 dated 9 December 1994, the Russian Federation Government has given the State Duma Instruction No VCh-P6-41200D dated 30 December 1994; to execute it a commission has been created in Goskomimushchestvo Rossii for revising the draft federal law "On the State Program of Privatization of State and Municipal Enterprises in the Russian Federation After 1 July 1994" taking into account the corrections submitted by deputies.

These priorities will be taken into account in revising the draft federal law.

*Prospects for Finance-Industry Groups in Economic Reform

954F1925A Moscow NEZAVISIMAYA GAZETA in Russian 23 Mar 95 p 2

[Interview with Sergey Batchikov, director-general of Interros, conducted by Sergey Ivanov: "Establishment of Finance-Industry Groups—A Chance for Russia's National Capital"; date and place not given]

[FBIS Translated Text] Interros, a group, the initiative for the establishment of which was approved by a special presidential decree, is among the few officially registered finance-industry groups. Its presentation will take place in Moscow tomorrow. Sergey Batchikov, director-general of

Interros, is convinced that the anticrisis reformation potential of finance-industry integration is highly significant.

[Ivanov] Sergey Anatolyevich, today views concerning finance-industry groups are very different. On the one hand, it is claimed that the formation of large organizational-economic structures, primarily finance-industry groups, is a key direction in the extrication of Russia's economy from the crisis and its reforming on a true market basis. It is said that finance-industry groups are capable of becoming the locomotives of the future Russian "economic miracle." On the other hand, the establishment of finance-industry groups is described as a currently fashionable campaign, behind which only the interests of monopoly monsters, who try to obtain new financial and other privileges from the state, are really revealed...

[Batchikov] The tendency toward the formation of finance-industry groups in our country does not represent a currently fashionable fascination, or monopolists' intrigues, but the imperative of the time and a response to its serious challenges. Such a tendency corresponds to the needs of domestic production and world economic realities.

It is no secret that the national economy of countries with a developed market economy is based on large organizational-economic structures, around which networks of medium-size and small enterprises are formed. About one-fourth of the world production, including the overwhelming part of science-intensive production, is controlled by 600 transnational corporations. In leading industrial powers powerful industrial companies are organically interwoven with ramified financial structures (banks and insurance and investment institutions) and transport, trade, and information organizations. Such integral formations have at their disposal wide production and financial resources.

The experience of West European countries, the United States, Japan, and South Korea unequivocally confirms: National capital gets a chance to act as a competitive force in world economic terms only if in its significant part it unites into finance-industry associations and closely interacts with the state.

Under present Russian conditions the formation on a new basis of large organizational-economic structures, in addition to a rise in the competitiveness of industrial production, will make it possible to revive the investment process, to get restructuring moving, to stop the decline in the scientific and technical potential, and to finally begin its use in the interests of improving the people's life. The establishment of industry-finance groups will help to maintain the defensive capability of the state, at the same time, advancing the conversion of the military-industrial complex without the loss of scientific production capabilities, and to link the disintegrated economic space in the territory of Russia and the former USSR.

After a decade of perestroika and post-perestroika blows, fortunately, the nucleus of domestic scientific production and production complexes, which have at their disposal substantial resources, a skilled personnel corps, and world-class technologies, still remains in Russia. I am convinced that these complexes, financially revived by the "upper crust" of Russian commercial banks, investment funds, and insurance companies integrated with them (many of which have already gone through the stage of "initial accumulation" and are beginning to feel the need for investing accumulated funds on a long-term basis in production), are fully capable of forming the fundamental base for the establishment of a network of modern-type finance-industry groups.

[Ivanov] Nevertheless, what about monopolism, supergigantism, and suppression of competitive principles?...

[Batchikov] Of course, it is absurd to reject the possibility of such effects in connection with the formation of finance-industry groups. However, the point is that ideal economic reforms, which would not contain negative aspects, do not exist at all. Moreover, the question of monopolism cannot be simplified. Monopoly is a certain market behavior, for which the concentration of production and capital may serve (and also may not serve) only as one of the prerequisites. Accordingly, antimonopoly legislation should be directed against monopoly behavior and not against concentration as such.

Take the antimonopoly legislation of Western countries, where, I will stress once again, large and superlarge finance-industry formations, around which networks of medium-size and small enterprises are formed, act as the main subjects of the market. This legislation impedes not at all the formation, for example, of monopolization of the market of specific goods produced by finance-industry groups, but manifestations of monopolism in their concrete actions. Furthermore, it evolves quite flexibly in connection with the change in the level of production and capital concentration, which is optimal according to the criterion ensuring competitiveness of national economies. For example, American antimonopoly legislation, when West European and Japanese competitors became stronger, was relaxed significantly as compared with the postwar period. However, in Western Europe and Japan such legislation has never been strict at all. The state even promoted the formation and strengthening of large corporations capable of blocking the expansion of American capital...

I think that economists, who maintain the following, are right: In order to fight against domestic monopolism and to develop a competitive environment, horizontally integrated intersectorial finance-industry groups are needed, because they have a real base for the expansion of production diversification, large resources, and the possibility of transferring them in a mobile manner from one direction to another and of using them for the establishment of affiliates in the country's various regions.

Finally, we must have the following in mind: True finance-industry groups are not merely the fruits of organizational restructuring. Ideally, they should appear only for certain projects aimed at the development, production, and sale of competitive products on domestic and world markets.

On the one hand, the process of finance-industry integration "from below," which often is initiated by large banks, has begun and the objective task of the state is to transform it into a key direction in Russia's industrial policy. I would play the hypocrite if I began to claim that the highest echelons of Russian power are totally unaware of the need for the policy of state support for finance-industry groups. They are aware and this was reflected in a number of documents from 1993-1995. I have in mind primarily presidential decree No 2096, which appeared at the end of 1993, and the corresponding Statute on Finance-Industry Groups, as well as the package of documents drafted by the RF State Committee on Industrial Policy.

On the other hand, it must be stated that these normative documents are insufficient and imperfect. As noted by many in the course of the debate around finance-industry groups, they contain many unjustified bureaucratic restrictions, not to mention the fact that individual provisions of existing privatization and antimonopoly legislation simply block the process of formation of finance-industry groups.

Take the restriction on the proportion of credit-finance or investment institutions forming part of the group to 10 percent of the shares. In fact, it closes for banking capital the road to production, because those that invest their funds, naturally, must control their use. However, with a share of 10 percent such control, as a rule, is impossible and, consequently, there is no interest on the part of banks in production investments.

The ban on participation in finance-industry groups of holding companies, in the capital structure of which physical assets make up less than 50 percent, closes the road to production for financial institutions in exactly the same manner.

Meanwhile, all these factors are of significance for our conditions, because the activation of the investment process is a question of life and death for domestic production, but at present capital is concentrated primarily in nonstate financial structures. As long as the interests of the latter are not taken into account properly, we will not get the matter of investments moving.

The Statute on Finance-Industry Groups also introduces restrictions on their sizes: The number of participating enterprises is not over 20, the number of people employed at each of them is no more than 20,000, and the total number of people employed at all group enterprises is no more than 100,000. These restrictions doom Russian finance-industry groups to being dwarfs among giants dominating the world market.

The Statute on Finance-Industry Groups contains a ban on cross-shareholding, which also serves as a significant obstacle to the formation of modern-type finance-industry groups (by the way, most of the famous Japanese "kayretsu" are based precisely on the cross-holding of blocks of shares).

The restrictions included in the Statute on Finance-Industry Groups, in principle, are surmountable. For this, however, it is necessary to obtain various kinds of permits from numerous state bodies.

Owing to excessive restrictions and bureaucratic obstructions, as well as the insufficient stimulation of potential participants in finance-industry groups, literally only a handful have registered as finance-industry groups. Opponents of the formation of these groups may triumph: Their tactics of introduction of restrictions and bans have reached their goal in many respects. However, one would like them either to answer specifically the question as to who will produce missiles, airplanes, motor vehicles, locomotives, and electronics, carry out the extraction, as well as intensive processing, of raw materials, and successfully compete on the world market, or to state that the country does not need all this—it needs only "snickers" and vodka in exchange for nonreproducible Russian natural resources. Let "demopolizers" say without wiles that the problem of preserving Russia's priority, for example, in the production of space complexes does not exist now. Their output requires both vast capital investments and the closest technical-technological and managerial integration of thousands of production units of numerous sectors and subsectors and a distinctive personnel corps of scientists and specialists. It is obvious that only powerful and highly diversified finance-industry formations established on the basis of their members' interest and with state support can provide all this today.

[Ivanov] However, you, probably, have fewer reasons to get angry at the authorities: The initiative to establish the Interros Finance-Industry Group was supported by a special presidential edict...

[Batchikov] The edict "On the Development of Measures of State Support for the Establishment and Activity of Finance-Industry Groups on the Basis of the Interros Finance-Industry Group" is of broader positive significance than assistance for one specific finance-industry group.

First, the edict demonstrated official support for the most efficient, in my view, types of finance-industry groups, under which they are formed "from below" and, above all, are initiated precisely by powerful commercial banks, which have practical experience in the placement of large investments. ONEKSIM-bank and the International Financial Company AKB [joint stock commercial bank] form the nucleus of our Interros Finance-Industry Group.

Second, the Interros Group supported by the edict includes more than two dozen participants representing

various sectors and different forms of ownership: the largest petrochemical, chemical and metallurgical industry, and food complex enterprises and leading transport, trade, and foreign economic organizations. Thus, the Interros Finance-Industry Group is a highly diversified and horizontally integrated and, consequently, promising association in terms of the establishment of a competitive environment, prevention of the monopolization of sectorial markets, preservation and development of science-intensive industries, and implementation of restructuring and from many other points of view.

Third, the edict created a positive precedent for the removal of the notorious bureaucratic restrictions, including on the number of participants in finance-industry groups and on the total number of employed people.

Fourth, the edict permits us to receive for commercial administration or trusteeship blocks of shares of enterprises participating in the group, which are temporarily reserved for the state; to establish the intersectorial fund for export development formed from commodity and financial resources of participants in the group and from other sources; to give guarantees to domestic and foreign investors for investment projects approved by the RF Government.

Undoubtedly, the chief thing lies in the fact that the edict entrusts the government with the generalization and analysis of the experience in the establishment and activity of the first Russian finance-industry groups, including our group, for the development and improvement of measures of state support for finance-industry groups and for the preparation, when necessary, of new draft laws.

In my opinion, such a need is not only urgent, but excessively urgent. I think that the development of the ideology forming the basis for edict No 2023 dated 28 October 1994, not the concept of the draft law on finance-industry groups now being discussed at the Federation Council, which retains most of the previous bureaucratic restrictions, is capable of realizing this need. In the very near future we will submit a number of appropriate specific proposals to the State Committee on Industrial Policy, to the government, and to the RF State Duma. In general, we would like to establish Russia's Association of Finance-Industry Groups, the tasks of which would be the generalization and transmission of experience in already formed finance-industry groups to new ones and the preparation of proposals for an improvement in legislation and industrial policy.

***Edict Abolishing Customs Preferences Discussed**

954F1846B Moscow OBSHCAYA GAZETA in
Russian No 11, 16-22 Mar 95 p 5

[Article by Aleksandr Protzenko: "'According to 104 Directives of Seven Edicts....' The President has Abolished Customs Concessions. Just How Many Were There?"]

[FBIS Translated Text] Two recent presidential edicts, as is well known, have abolished 59 prior edicts of Boris Yeltsin granting customs concessions to various Russian territories, enterprises, and even the "near boyars." Absolutely all preferences have been abolished, according to presidential adviser Aleksandr Livshits, and "no one has been spared." The government, true, has been assigned to "submit proposals for a procedure to compensate for the losses of subjects of economic relations who used to have customs preferences as a result of the adoption of these edicts." It is understandable that the promised "compensation" does not suit everyone, and a grave struggle is under way for it. But does everyone know how large the concessions were, so to speak, "in monetary terms"?

A month ago, on February 17 of this year, State Customs Committee [GTK] of Russia First Deputy Chairman V. Kruglikov issued Order No. 106, "On the Invalidation of Certain Official Regulations of the State Customs Committee of Russia." These regulations—by and large, "directives" issued on the basis of edicts by the president of the Russian Federation and decrees of the government—released various institutions and organizations sending petroleum, petroleum products, and some other goods abroad from the payment of export duties. The order from the GTK first deputy chief had 104 clauses. Such as, for instance, these: "Clause 1 of GTK of Russia Directive No. 01-12/18 of 6 January 1994, 'On the Release of Oil- and Gas-Producing, Geological-Exploration and Petroleum-Refining Enterprises From the Payment of Customs Duties' is hereby invalidated....," or "GTK of Russia Directive No. 01-12/191 of 22 March 1994, 'On Release of State Communications Enterprises From the Payment of Customs Duties and Value-Added Taxes,' is hereby invalidated...."

I would note that only those "directives" have been "invalidated" for which the effective term had simply expired—no one was thinking yet about any mass cancellation of concessions a month ago. Reading this order, one can nonetheless comprehend what amounts of foreign deliveries were released from the payment of customs duties by the presidential edicts and government decrees.

The reader, of course, requires concrete facts and figures—and there are more than enough of them in the order. One may understand from it, for instance, that the International Economic Collaboration RAO [Russian joint-stock company] was released from the imposition of export duties on 4 February 1994 "on deliveries of one million tonnes of crude petroleum." And on 25 March 1994 the International Economic Collaboration RAO was released from the payment of export duties "on deliveries of four million tonnes of crude petroleum." And on 6 June 1994 the International Economic Collaboration RAO was released from the payment of export duties "on deliveries of 400,000 tonnes of furnace fuel oil and 320,000 tonnes of diesel fuel." And on 4 July 1994 this RAO was released from the payment of export

duties "on deliveries of one million tonnes of crude petroleum." And on 17 October 1994 it was released from the payment of export duties "on deliveries of two million tonnes of crude petroleum...."

In all, if we believe just the February order of GTK, the modest and little-known International Economic Collaboration pumped some nine million tonnes of crude petroleum, 400,000 tonnes of furnace fuel oil, and 320,000 tonnes of diesel fuel from Russia duty-free in the past year.

For reference, the export duties on crude petroleum last year were set at 30 ECUs per tonne (one ECU was equal to approximately 1.25 U.S. dollars last year). The duty on fuel oil is 4 ECUs per tonne, and the duty on diesel fuel is 30 ECUs per tonne. That means that these concessions on export duties alone brought the International Economic Collaboration RAO an additional 340.7 million dollars last year, not counting the direct profits from the oil trading.

We would note that is just one "beneficiary," albeit one of the major ones. But dozens of them are indicated in the GTK order in all. The Balkar-Trading SP [joint venture], for instance, shipped 6.712 million tonnes of crude petroleum out of Russia duty-free over the year. Some Alfa-Ekho AO [joint-stock company] a little less, 4.340 million tonnes of crude petroleum, along with 189,440 tonnes of diesel fuel. The Rosnefteimpeks AO was released from export duties not only for the export of oil, fuel oil, and solar oil, but automotive gasoline and even... jet fuel (10,000 tonnes).

Some organizations in the customs order proved to be "classified." Clause 55 of the order, for instance, invalidated the directive "On the Release of the Main Administration for Trade of the Ministry of Defense of the Russian Federation from the Making of Customs Payments." But what goods those are—a secret. Released, period, and no one should worry what the Main Directorate for Trade of Grachev's department was shipping out of the country, for which even the "directive" releasing them from the duties itself was stamped with "Official Use Only."

The same directive at the end of last year released from the payment of customs duties the Russian Fund for War Invalids of Afghanistan. And a GTK letter of 24 August 1994 released some "Mr. X"—the beneficiary not even named—from the payment of customs duties and value-added taxes.

Exported duty-free from the country last year under these "directives" were, in all:

- 35,693,011 tonnes of crude petroleum;
- 4,154,044 tonnes of diesel fuel;
- 6,780,000 tonnes of furnace fuel oil;
- 750,000 tonnes of bunker fuel;

—405,000 tonnes of automotive gasoline;

—21,000 tonnes of gas condensate; and

—10,000 tonnes of jet fuel.

You can total up the losses to the treasury yourselves.

But now I will state the most important thing—all 104 clauses of the GTK order I have been talking about canceled directives on concessions that were defined by just seven presidential edicts and one government resolution. And the president canceled 39 of his own edicts on March 6.

Is it now understandable what income the "beneficiaries" have been deprived of, and what a fight is under way in government corridors for the promised compensation?

***Creation of CIS Customs Union Proposed**
954E0781B Moscow KOMMERSANT-DAILY in
Russian 23 Mar 95 p 2

[Article by Marat Salim, under the "Formation of a Customs Union" heading: "Russia Has Firm Intentions of Executing Its Pledges"]

[FBIS Translated Text] After the prolonged dispute about the direction to be taken in developing integration in the CIS ended with the signing between Moscow, Minsk, and Almaty of an agreement on creating a customs union, its practical implementation began. On the Russian side, the coordination and control of the execution of the pledges will be carried out by a special commission headed by Deputy Prime Minister Aleksey Bolshakov, which was established by a governmental decree.

On 28 January Almaty joined the agreement concluded by Moscow and Minsk on the creation of a customs union, which agreement is open to all the CIS countries. After negotiations conducted in Moscow by Nursultan Nazarbayev (KOMMERSANT-DAILY wrote about them on 21 January) and visits to Moscow by the prime ministers of Belarus and Kazakhstan, a memorandum was signed, establishing duty-free trade conditions among the states. The meaning of the customs union consists in that, while goods are en route between and among the three states, all the obstacles (tariff and nontariff), including customs duties and fees, are eliminated. In this regard, the unification of the customs legislations and normative acts has become a first-priority task in establishing a uniform system of customs regulation in the three countries.

It is most probable that the change in the system of customs control will affect chiefly Belarus and Kazakhstan. A joint working group that will include representatives of all three states will engage in preparing decisions to implement the trilateral understandings, including those dealing with the unification of customs legislation. The first session of that group has been planned for March. On the Russian side, control of the

implementation of Russia's pledges for creating the customs union will be carried out by a special governmental commission.

It must be noted that the governmental decree concerning the creation of the commission contains a rather rigid schedule for developing the proposals for forming the customs union. It is proposed that, by the first quarter, the joint working group will have the fundamental documents submitted to it for review, including recommendations for coordinating a balanced schedule for canceling the limitations in reciprocal trade, for unifying currency-financial and tax legislation in the area of foreign-economic activity, and for introducing uniform principles of customs legislations. It remains only to be hoped that the good intentions of the Russian Government and the Governments of Belarus and Kazakhstan will not prove to be only another demarche, and that the customs union, as proposed, will be formed by 1 January 1996.

[Begin box]

List of Basic Measures for Implementing the Agreement on the Creation of a Customs Union

By the end of March, the Russian part of the joint working group to implement the principles in the trilateral agreement will be formed.

By the end of the second quarter, the harmonizing of normative acts is supposed to be carried out, with the aim of implementing the mechanism for creating a free trade zone within the confines of the customs territories of Russia, Belarus, and Kazakhstan.

In the second quarter, proposals will be prepared for introducing a uniform procedure for foreign-economic regulation and a uniform customs tariff with respect to third countries.

It is proposed, prior to the end of the first quarter, to introduce principles of customs legislations that are uniform for Russia, Belarus, and Kazakhstan.

In the first quarter, a uniform procedure of customs control of the movement of goods across customs borders is supposed to be coordinated. [End box]

***Aspects of Land Distribution to Peasants Explored**

Committee Meets, Komov Reports

954E0752A Moscow KRESTYANSKAYA ROSSIYA in Russian No 8, 27 Feb 95-5 Mar 95 p 2

[Article by Yuriy Volokhov: "The Land Has Been Measured Off Seven Times...."]

[FBIS Translated Text] An expanded session of the collegium of the RF Committee on Land Resources and Land Management took place in Moscow two days ago.

It was devoted to the results of the work done by Roskomzem in 1994 and to the tasks for this year.

Directors of the regional committees of this department, representatives of sectorial sciences and specialists in the sphere of land legislation were invited to the meeting.

There was detailed and well-considered talk about the fate of land reform in Russia. N. Komov, chairman of Roskomzem, emphasized in his report that only the co-existence and support of all forms of ownership for the land and all forms of management would make possible any real yield from land reform.

Private farming can survive only in cooperation with major state and collective farms.

Circumspection and the registering of healthy conservatism, particularly in forming a land market—it is impossible to carry out land reform without these, for otherwise, we will not escape a social explosion.

N. Komov made several mentions of the experience in China, where the land market is based on leasing it.

In his opinion, half of the agricultural areas in Russia can also be utilized on the basis of leasing rights.

One of the main tasks this year is to adopt the Land Code at last, and to complete the development of a legal base for land reforms.

Cartoon Shows Offer of Distant Land

954E0752B Moscow KRESTYANSKAYA ROSSIYA in Russian No 7, 20-26 Feb 95 p 2

[Cartoon by Vyacheslav Shilov]

[FBIS Translated Text]

Board Chairman Kalinin on Land Code Edition

954E0752C Moscow KRESTYANSKAYA ROSSIYA in Russian No 9, 6-12 Mar 95 p 2

[Comments by Nikolay Ivanovich Kalinin: "The Land Code: the 24th Version...."]

[FBIS Translated Text] Will the new Land Code be passed anyway? What has caused the delay in drawing it up? Nikolay Ivanovich Kalinin, chief of the Roskomzem Administration, answers these questions.

The work groups and conciliation boards have been working on four alternative variants of the draft law for two years. As a result of laborious work, a generalized version of the draft of the Land Code is ready today. It is essentially the 24th printed version of the text (counting the amendments entered in the course of the work).

The work has used up mountains of paper, and taken its toll on time, nerves and mental powers.

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The disputes were mostly over questions of restricting the sale of land for agricultural purposes and the impermissibility of speculative deals with land. As a result, the draft includes bans on free disposal of the land.

For example, a five-year moratorium was introduced on the sale of land for agricultural enterprises and farmers.

When this period has elapsed, agricultural enterprises may sell (by decision of the general assembly and in accordance with its rules) land parcels, without changing their specific designation, only to other agricultural enterprises and peasant farms.

No moratorium is being established on the sale of land granted as property for keeping a personal subsidiary farm, horticulture, livestock breeding or individual housing, summer-home and garage construction. Substantial restrictions are introduced on carrying out other transactions with land (mortgaging, leasing, sub-leasing, temporary use, exchange of parcels, donation).

In the near future, after the editorial and stylistic corrections have been completed, the finalized draft of the Code is to be considered at a meeting of the State Duma.

Komov Comments on 1994 Progress, Unused Land

954E0752D Moscow KRESTYANSKAYA ROSSIYA in Russian No 9, 6-12 Mar 95 p 2

[Article by Gennadiy Urvantsev: "Five Million Hectares Are Empty"]



[FBIS Translated Text] As KR has already reported, the RF Committee on Land Resources and Land Management held an expanded session of the collegium last week, devoted to the results of 1994. In his speech, Nikolay Komov, chairman of the Committee, reported that the number of people participating in land relations in Russia had increased from 300,000 in 1991 to 45 million today. In 1994 alone, 4.4 million families received parcels for gardens, individual construction, personal subsidiary and farm establishments. Some 24 million Russians were issued documents for the right to have the use of land parcels. Incidentally, the speaker considered it necessary to define more precisely the fact that millions of Russians are obtaining certificates for the right to have the use of land, not ownership documents.

Land tax and leasing are already bringing hundreds of billions of rubles into the federal budget, but only a negligible part of these funds is used in the interests of the land itself, to increase its fertility and improve it. As a result, 5 million hectares of Russia's fertile agricultural land were not used at all in 1994.

Today, however, the main question in land reform is to set up a legislative basis, mainly the passing of the Land Code.

*Metallurgy Committee on Steel Production Increase

954F1940A Moscow SEGODNYA in Russian 21 Mar 95 p 14

[Article based on data of the RF Committee on Metallurgy: "Russia Still Holds Fourth Place in the World in Steel Production; Ferrous Metallurgy in 1994 - Start of 1995"]

[FBIS Translated Text] In January of 1995, as compared with December of last year, production increased for almost all types of metal products, except steel pipes. The increase in production is occurring at higher rates in the raw material subsectors. The increase in volumes of production of finished rolled stock is occurring primarily due to the increase in production of billets for export.

In recent months, the situation with supply of iron ore raw material and coking coal has improved somewhat, which has made it possible to increase reserves of these materials at a number of metallurgical enterprises, and to somewhat stabilize the work of coke and metallurgical production. This, in turn, has had a positive effect on steel smelting and rolled stock production.

At the metallurgical enterprises of Ukraine, a decline in production of coke, finished rolled stock and steel pipes has been noted, while in Kazakhstan there has been an increase in volumes of production for all types of metal products.

On the whole for the ferrous metallurgy enterprises of the Russian Federation, the volume of commodity production in cost expression for January of 1995 comprised 4669.6 billion rubles (R). As compared with the

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analogous period for 1994, this indicator has increased by 3.3 times, with a price increase of 3.1 times and an index of physical volume of 105.4 percent. As compared with December of 1994, the volume of commodity production increased by 18.4 percent in December.

At the enterprises of the "Chermet" corporation, the volume of commodity production for January of 1995 comprised R3971.5 billion, a growth of 3.4 times over the analogous period for the preceding year, including due to the change in prices—by 3.2 times.

According to the data of the financial report, consumers owe individual enterprises in ferrous metallurgy of the Russian Federation (whose relative share in the overall volume of commodity production is 68.1 percent) R5907.4 billion as of 1 February 1995, while the ferrous metallurgy enterprises, in turn, still owe suppliers R6480.8 billion. This includes incurred debts for goods and services in the amount of R4421.5 and credit indebtedness for goods and services in the sum of R3908.9 billion, while debts on payments to the budget comprise R558.4 billion.

At the same time, 36.1 percent of the incurred debts and 30.3 percent of the credit indebtedness are overdue.

The past year on the ferrous metals market was characterized, as experts at the OECD [Organization for Economic Cooperation and Development] noted, by the fact that China, surpassing the USA, became the second largest steel producer in the world, after Japan.

In the countries of Western Europe, the tendency is retained toward increase of prices on steel products thanks to the growth of demand and efforts of the companies to reduce capacities. OECD experts expect a continued decline in the volumes of export of ferrous metals from the countries of Western Europe and Japan. Import to the USA will decline somewhat. They believe that the growth of export of ferrous metals from the CIS will continue.

World steel production, million tonnes		
Country	1993	1994 (estimate)
Japan	99.8	98.3
China	88.7	91.5
USA	88.8	88.9
Russia	58.3	48.6
Germany	37.6	40.8

In 1995, the limitations on import into the EC [European Community] for the CIS will be somewhat eased. The quotas are set with consideration of the proposed growth in demand for steel products in the EC by 4-5 percent.

Recently the KEC [not further expanded] adopted a decision to increase the amount of quotas for import of steel products from Russia, Ukraine and Kazakhstan in

1995 by 35 percent as compared with 1994, up to 500,000 tonnes, and by another 15 percent in 1996, up to 582,000 tonnes. The relative share of Russia in these deliveries is defined at 60 percent, of Ukraine—35 percent, and of Kazakhstan—5 percent.

Quotas for supply of basic types of rolled stock to the EC from the CIS, thousand tonnes

Designation	1995	1996
Sheet rolled stock	304	360
Merchant rolled stock	142	163

Moreover, the CIS will be able to supply 500,000 tonnes of steel products to the eastern lands of the FRG [Federal Republic of Germany] in 1995, as compared with 470,000 tonnes in 1994.

In its relations with the countries of Eastern Europe, the EC has adopted less strict limitations.

*Problems of Light Metal Industry Seen

954E0741A Moscow DELOVOY MIR in Russian 16 Mar 95 p 5

[Interview with Oleg Deripasku, director-general of the Sayansk Aluminum Plant, by Nina Trubnikova, DELOVOY MIR; place and date not given: "Who Will Solve the Difficult Problems of Light Metal?"]

[FBIS Translated Text] Processes occurring in the domestic aluminum industry are now rightfully at the center of attention of business circles. When other sectors were "drowning," aluminum producers managed to stay afloat and, for all practical purposes, managed not to lower production volumes in the last five years. The conversion to joint-stock companies of aluminum plants and facilities attractive to the far-sighted investor has become a distinctive experimental field, where the most efficient technologies of Russian privatization have been "run in" and methods of attracting large-scale foreign investments, which Russia badly needs, have been worked out. The first results can be evaluated now. We asked Oleg Deripasku, director-general of one of the sector's largest enterprises, the Sayansk Aluminum Plant, to look at the situation "from within" and to indicate the present problems of light metal producers.

The Situation Has Not Reached Crisis Point

[Trubnikova] Oleg Vladimirovich, what do you think, are there signs of a crisis in the aluminum industry?

[Deripasku] In the Russian economy today there is no sector where crisis phenomena cannot be observed. However, whereas an avalanche-like decline in production volumes occurred in many other sectors, in the aluminum industry these volumes decreased negligibly. Yes, aluminum producers, including our plant, have

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serious problems—irregularities in deliveries of high-grade raw materials, shortage of circulating capital, and the need for urgent major equipment repairs. There have been difficulties with the sale of aluminum on the domestic market for several years. After all, domestic aircraft building, which was the main consumer of “winged” metal, is not going through the best of times. Today, as compared with the end of the 1980’s, real domestic aluminum consumption has dropped approximately 10-fold. However, I believe that despite all these difficulties there is no crisis in the full sense of this word in the aluminum industry. And there should be no crisis as long as Russian aluminum, in contrast to many other goods of ours, is competitive on the world market.

[Trubnikova] What is the state of the world aluminum market and what are the forecasts for the next decade?

[Deripasku] In 1994 the situation for Russian producers of this metal became favorable—world aluminum prices continued to rise. Whereas in the second half of 1993 the price of aluminum was at the level of a little over \$1,000, at the end of last year and the beginning of this year it rose to approximately \$2,100 per tonne. Russian aluminum export grew from 970,000 tonnes in 1990 to 2,150,000 tonnes in 1994.

[Trubnikova] Was our metal bought so actively abroad owing to its lower price?

[Deripasku] Several years ago there was a huge difference between aluminum prices on the domestic and the world market. For example, in the USSR at the beginning of the 1990’s 1 tonne of aluminum cost 850 rubles, while during that period the world price was almost \$1,700. As is well known, however, there was no free export. There were quotas, which were intended to protect, on the one hand, the domestic consumer, and on the other, the world aluminum market, which would have been immediately destabilized if cheap Russian metal had been poured into it. Today the situation with prices has been evened out. It has become unprofitable for intermediary structures to buy metal from plants for resale. For example, the prices of products of our plant—the Sayansk Aluminum Plant—are equal to world prices and are determined in accordance with the prices formed at the London Metal Exchange.

[Trubnikova] And, of course, domestic consumers do not like this very much.

[Deripasku] Yes, but we cannot work any differently. The Sayansk Aluminum Plant needs investments for its own development. Otherwise, selling our metal cheaper, one fine day we will see that the plant lags hopelessly behind the world level. Today future competitors—powerful aluminum plants—are being built in South Africa and Australia, where the production costs of metal promise to be very low. For now Russian aluminum producers are surviving and can develop owing to material and technical resources and manpower, which are cheaper in Russia than in developed countries.

However, in several years these indicators will even out. Therefore, we must think about new technologies right now.

Under the Trademark of the Sayansk Aluminum Plant

[Trubnikova] However, it is believed that the Sayansk Aluminum Plant—SaAZ—is supplied with the most modern equipment in Russia.

[Deripasku] Our plant is the youngest aluminum producer in the country. It was decided to build it on the left bank of the Yenisey, 75 km away from Abakan, as long ago as the 1970’s. This year on 25 April it will be 10 years since the first metal was obtained there. The process of electrolysis—the basic process in aluminum production—has been maximally automated at SaAZ, energy consumption has been reduced by 10 percent, and 75 percent of the aluminum that we obtain is of a high grade. Owing to new technological solutions, the situation with ecology at our plant is not bad. As compared with some industrial giants, we are simply a “confectionery factory.” When SaAZ was being built, we spared no expense, purchased what was needed abroad, and equipped the plant in accordance with the latest technology. To this day it retains its leadership in technology among the sector’s enterprises, although some things already require replacement and major repairs. New capacities must be put into operation. If we realize our investment program and put the northern part of the seventh and the eighth electrolysis building into operation in spring, we will increase production capacities by 10 percent. Under conditions of the present economic decline, when, for the most part, production is dropping, this would be very important for the aluminum industry.

[Trubnikova] And so, you are the first in technical equipment. What place does SaAZ hold today in the quantity of produced aluminum and what specifically do you produce?

[Deripasku] In volume of output we are in third place after the sector’s largest enterprises—the Krasnoyarsk and Bratsk aluminum plants. Basically, so-called commercial aluminum is produced at SaAZ. We try to obtain products with a higher degree of processing—ingots, alloys, sheets, and building structures. The plant has developed a technique of production of special-purity aluminum, in which the content of admixtures makes up no more than a 10,000th fraction of a percent. SaAZ is the only enterprise where the output of burnt anodes used in aluminum production has been set up. We also offer our partner plants cold-ramming hearth mass—one of the basic components for electrolysis.

[Trubnikova] What is the international status of your products?

[Deripasku] Aluminum with the “SaAZ” mark was certified at the London Metal Exchange. In Mexico in 1993 the plant was awarded the “International Diamond Star” for quality of output. In Madrid in the same year it

received the "23d International Award for Commercial Prestige" and in 1994 and quite recently, 10 days ago, also in Madrid it was presented with "Golden Mercury" international prizes for quality. SaAZ also has Russian awards. For example, the technique of production of special-purity aluminum was awarded a first-degree diploma by the Exhibition Committee of International Kuzbass Fairs in Novokuznetsk. So, our products have received wide recognition.

Roundabout Routes of Sayansk Energy

[Trubnikova] Apparently the convenient location of SaAZ is one of its trump cards. The plant is located several dozens of km away from the Sayano-Shushenskaya GES [Hydroelectric Power Station]. I heard that aluminum figuratively is called "electric power cans." Does proximity to the largest electric power station in the country really result in production costs of such "cans" that are lower than in the sector on average?

[Deripasku] You have touched on a very sore subject for SaAZ—mutual relations with the energy complex. The plant is the largest power consumer in the Republic of Khakassia. Last year we used 5.3 billion kwhr. Under conditions of the unrestrained rise in prices of energy resources for SaAZ, expenditures on electric power per tonne of commercial aluminum increased 4,360-fold as compared with 1990. Imagine, while production costs of electric power are 18 rubles per kwhr, the plant must pay three times as much! Yet, since the distance between the GES and the plant is 36 km, there are virtually no losses during power transmission. The problem is that the Khakasenergo Joint-Stock Company, a subsidiary of the central department, that is, the YeES [Unified Power System] Russian Joint-Stock Company, which forms the rates at the regional level, set the same prices for the Sayansk Plant, one can say, the "wholesaler," which pays for 70 percent of all the consumed energy, and for small consumers.

[Trubnikova] However, in the republic there are enterprises which pay for power at preferential rates or are completely unable to pay.

[Deripasku] Of course, there are also many such structures. But all the missing funds are collected from SaAZ. It turns out that after the rise in the price of aluminum on the world market, the plant has barely taken a breath and again is being suffocated economically by totally unsubstantiated extortions. SaAZ often turned to the Government of Khakassia and Russia with a request for a change in the procedure for and in the method of forming the price of energy for energy-intensive enterprises and for the possibility of direct relations between the plant and the YeES Russian Joint-Stock Company, which would lower the expenditures on the maintenance of superstructures. But no, so far an answer has not followed.

Does Russia Need Tolling?

[Trubnikova] Is the situation with raw materials just as difficult?

[Deripasku] The shortage of circulating capital—a typical problem for our sector's enterprises—entailed a weakening of economic ties with suppliers, a deterioration in the quality of raw materials, and consequently, a drop in metal grades. By the end of 1994 it was possible to regulate the irregularities with respect to raw materials for SaAZ. As yet, however, not everything is smooth. An analysis showed that, for reasons not depending on us, production costs of our aluminum increase by 7-8 percent every month. This rise is connected primarily with the systematic increase in prices of raw materials by domestic suppliers of alumina, coke, and pitch, not with our expenditures. Nonsense, these prices often have begun to exceed world prices.

[Trubnikova] Under these conditions is it not more advisable to change over to tolling?

[Deripasku] Indeed, it solves many plant problems, primarily with circulating capital. In the aluminum industry sources of cheap raw materials and cheap energy (true, in the case of our plant the low price of energy can be discussed only hypothetically) most often are located in various points of the earth. Tolling is a normal form of the international division of labor. When an aluminum plant does not need to purchase alumina with its money, it processes raw materials supplied by a foreign firm and receives a certain percent—approximately 50 percent of the finished output—for its work. If there is no circulating capital—borrowed capital is too expensive in our country today—why, instead of shutting down production, should we not earn money on tolling? SaAZ also uses tolling actively: Last year tolling deliveries made up 44 percent of the total volume of deliveries. However, we do not consider tolling a panacea. It is rather a successful tactical way out of a difficult economic situation, nothing more.

[Trubnikova] What is next?

[Deripasku] Next there is the development of direct ties with producers of raw materials, which does not as yet always happen. For example, we counted on raw materials produced by our long partner—the Bogoslovsk Plant. But it sold one-half of its alumina to Tajikistan. Now SaAZ is forced to feverishly look for another supplier and even to buy raw materials on the world market. The stimulation of a normal development of the domestic alumina industry, since Russia is rich in bauxites, is an important task today. However, under conditions when the development of domestic deposits is associated with large capital investments and long periods, the construction of new plants with the participation of Russian structures not only in our country, but also abroad, is advisable. An intergovernmental agreement between Russia and Greece on the continuation of the construction of an alumina plant in Greece (Tizvi),

which was begun with the technical assistance of the former USSR as long ago as 1989, is now being prepared for signing. SaAZ intends to become a participant in this long-term project.

There Is No Alternative to Privatization

[Trubnikova] The problem of redistribution of property in the aluminum sector is being widely discussed today. SaAZ also belongs to enterprises where a change of the "owner" has occurred. Is the bulk of the shares really concentrated in the hands of five or six investors?

[Deripasku] The plant's privatization took place on the basis of the state program according to the second variant. A total of 51 percent of the shares were distributed in the labor collective and the rest were sold at voucher and money auctions and at an investment contest. In my opinion, today there is an unhealthy rush around the distribution of shares of aluminum plants. For example, at the Krasnoyarsk Plant the management has crossed out two private structures from the list of shareholders and, following an action by these structures, a trial is going on. An arbitral tribunal declared the sale of part of the shares of the Bratsk Aluminum Plant illegal. Articles whose authors at first glance are worried that Russia is losing control over one of the basic sectors constantly appear in newspapers. They claim, not troubling themselves with proof, that the "dirty" capital of foreign investors and even fictitious Chechen letters of advice and forged Rossiya vouchers, which are so fashionable today, are laundered in the Russian aluminum industry. In my opinion, these publications reflect more the interests of deprived commercial structures and economic groups, which were late for the division of the pie and would like to get their piece by compromising the competitor. And of those for whom it was quite good to live under the old administrative "feeding trough."

[Trubnikova] However, the price of shares in no way reacted to all this propaganda campaign or to the check on the legality of privatization of aluminum plants ordered by the state.

[Deripasku] Nevertheless, such situations are very dangerous. The state should more actively protect legal owners of shares. Today foreign investors, who are still ready to invest their money in the Russian economy, are on the alert. If they are frightened, tomorrow we will not get even \$1, and not only in the aluminum industry. In the existing situation it is absurd to talk about the selling off of Russia. In our country foreign companies control a meager part of the economy, which is incomparable with the normal involvement of foreign capital in national production in other countries. Owing to the redistribution of property, plants were not exported abroad—they remain in Russia.

[Trubnikova] With regard to the Sayansk Aluminum Plant, as far as I know, serious personnel reshuffling, which reflected the results of the enterprise's conversion

into a joint-stock company, occurred there in November. Did the strategic line of the plant's development change in this connection?

[Deripasku] The new management inherited huge debts from the last four years to power industry workers and suppliers of raw materials. We were able to accumulate financial resources and with the help of shareholders, who gave real money, we repaid these debts. Moreover, more than 20 joint ventures with virtually zero economic efficiency existed under SaAZ. Funds were invested in totally reckless projects. The result: In 1994 with multi-billion investments the profit totaled 17 million—no, not dollars—rubles. The question arises: Did the state treasury benefit from such a taxpayer? The former administration deliberately overlooked all this, but shareholders did not want to tolerate such a situation.

[Trubnikova] The press has raised the question of the Sayanal Joint Venture, which has not yet been completely finished, one of whose founders is the plant. Please comment on this situation.

[Deripasku] At one time, together with other investors, the plant began the establishment of this joint venture for the production of foil and intensive aluminum processing. The necessity of this enterprise for the Russian economy was recognized at state level. Now different times have come and SaAZ has remained alone with its problems, without state support. Banks demand that the plant be independently responsible for credits, in no way taking into consideration that its share in the authorized capital is only 46 percent and that there are also other founders. Sayanal is almost completed and will produce products in one or two years. However, if the state does not help, construction will be delayed by another four or five years. How will foreign creditors view this, especially since at one time credits were given against guarantees confirmed by the Russian Federation Committee on Metallurgy? Instead of a business approach, rumors appear that we do not want to complete what was begun. The question is not whether we want this or not—the enterprise has neither the forces nor the funds for this. We must first fully repay our debts and credits.

[Trubnikova] What has the new management already succeeded in doing?

[Deripasku] In November 12 percent of the plant capacities were shut off. Now, after the redistribution of financial resources, we have managed to lower the figure to 5 percent. In the last four months the volume of production has increased significantly, normal profits have been obtained, a new shop for the repair of electrolyzers has been organized, and technological equipment is being replaced. We are trying to solve the social problems of the plant, where almost 8,500 people work, and we have a large subsidiary plot, which provides people with high-quality food products. SaAZ is the general builder of the city of Sayanogorsk. It builds houses and finances cultural institutions. Incidentally,

today 45 percent of Khakassia's budget is formed from taxes, which our plant transfers.

[Trubnikova] So it turns out that the privatization of aluminum plants is profitable for the state? But former control was lost.

[Deripasku] Why should critics of property redistribution at these plants with pencil in hand not calculate what the economic result of privatization is? When the plant is forced to operate through dozens of intermediary companies, which show exceptional inventiveness in order to evade taxes, this is one situation quite unfavorable for the state budget. However, when there is a concrete owner, tax bodies know whom to hold responsible, accounting is open, and mechanisms of normal fiscal control exist—this is quite a different situation. Perhaps someone does not like the fact that now plant management counts every ruble and the sale of metal on credit, at reduced prices, and without prepayment is ruled out. However, this is totally understandable for any normal economy.

[Trubnikova] Nevertheless, what argument in favor of capital concentration do you consider the strongest?

[Deripasku] At our enterprise people like to sound the alarm that shares are being bought up from workers. However, in my opinion, there is nothing terrible in this. The enterprise cannot have thousands of real owners right away. In Japan, as a rule, property is separated from the labor collective and this has no effect on labor productivity. With regard to small and average outside investors, as a rule, they buy shares of aluminum plants in the expectation of a successful speculative game on the stock market, or high dividends. They are not ready and will not wait until an upsurge of the sector and the plant occurs. The more quickly controlling blocks of shares are consolidated in the hands of large private owners, who are interested in the development of the plant, not in instant profit, the sooner production problems will begin to be really solved and long-term projects carried out. One can learn from the experience of the Sayansk Aluminum Plant, and not of it alone, that this is really so.

***Government Program for Metallurgy Industry Assessed**

954E0815A Moscow *RABOCHAYA TRIBUNA* in Russian 31 Mar 95 p 5

[Interview with Serafim Zakharovich Afonin, chairman of the RF Committee on Metallurgy, by RIA correspondent Vladimir Smyk specially for *RABOCHAYA TRIBUNA*: "Despite Everything, Metallurgy Is Trying On Modern Fashions"; date and place not given]

[FBIS Translated Text] A year ago, the RF [Russian Federation] Government approved a federal program for the retooling and advancement of the country's metallurgy. How are things going in the sector today? Our

correspondent talked about this with Roskommetallurgiya [RF Committee on Metallurgy] Chairman Serafim Afonin.

[Smyk] Serafim Zakharovich, when the program began, many people were simply stunned by the amounts which its developers were using: tens of trillions of rubles are required for the modernization of the metallurgical complex. Voices were raised: the metallurgists are revving up the inflation flywheel....

[Afonin] The metallurgists did not request this money from the state. Last year, the funds from the federal budget for the program's implementation amounted to just 4 percent (originally, we were counting on 8 percent). This year, the structure for the financing of investment projects will be as follows: depreciation allotments, deductions from profits, the sale in investment deals of a block of shares, which is still state-owned, and the secondary emission of shares. There is nothing inflationary among these four sources.

As for the share of state capital investments in the financing of the program's projects, it will be reduced to almost zero. It must be said that the actual investment process under the conditions of a market economy cannot be inflationary. The goal of the investments is to make the metallurgical enterprises' products competitive. If a sector, especially a basic one, begins to operate more efficiently, does this really lead to inflation?

[Smyk] Have the amounts of the required investments been adjusted?

[Afonin] The enterprises are investigating every possibility for reducing the costs associated with the plants' modernization. Business plans are being drawn up for the program's projects and they are making it possible to reduce the estimated amount of needed capital investments—to 25 percent. In general, it must be said: life has given rise to the program and, from the very start, we have been prepared for life to adjust it. But the concept itself of the federal program and its strategic direction have not changed.

We are talking about reorganizing metallurgy structurally. Our sector managed last year to direct almost 4 trillion rubles [R] into investments. This made it possible to replace 5 percent of domestic metallurgy's fixed capital—domestic metallurgy of recent decades has not known anything above this pace. If the given pace were doubled, then, over a 10-year period, the sector would become something completely different.

In developing the program, we figured that this would occur by the year 2000 (i.e., 12-13 percent of the fixed capital should have been replaced annually). Now it is obvious that we will not be able to complete the structural reorganization by this deadline. However, this does not mean at all that it is possible to relax the efforts in this direction. You cannot create a modern metallurgical plant in a month's time or even in a year's time. This is

why we, the metallurgists, should work for lead time. Furthermore, it must not be thought that stabilization and an upswing will begin by themselves. It is necessary to create a favorable situation for them. However, nothing will happen, if we sit with our hands folded and wait.

[Smyk] Which events of the past year have inspired optimism in the metallurgists and what is causing alarm?

[Afonin] First of all, we managed to stop the slump in the production of basic types of metal products. Its volume today has remained almost at the level of the end of 1993 and this is undoubtedly a positive fact. The start-up of the "2000" hot-rolling mill at the Magnitogorsk Metallurgical Combine was a significant and joyous event of the past year. This largest metallurgical project of the nineties, not only in our country, but also in the world, has been introduced in accordance with the federal program. Among the new projects, I would also name the coke-oven battery with a capacity of 275,000 metric tons of coke at the Moscow Gas Coke Plant and the electrolysis shop with a capacity of 75,000 metric tons of copper at the Kyshtym Copper Electrolysis Plant. The list of new capacities could go on and on. It will be supplemented substantially by the projects which will be placed into service this year.

We are also gladdened by the fact that the enterprises' funds diverted to the program's implementation will not be taxed—the government recently made this decision. The consumers of metal products have become less indebted to us (by 5 percent) and we have begun to settle accounts better with the suppliers. The percentage of sold output has increased noticeably (from 77 percent to 90 percent).

As for our anxieties, there are also enough of them. What disturbs us first of all is the continuing decrease in the domestic market for metal products. Japanese economists widely use the term—"national economic security." They include in this category, in particular, a country's ability to provide itself with transport metal and metal products used by the power-engineering complex. In our country, however, even given the increasing wear of equipment in transport and in the TEK [Fuel and Energy Complex], these sectors' effective demand for metallurgical complex products is falling.

Last year, the loss of working capital by enterprises of the metallurgical complex continued. Its amount fell from 17.5 percent to 11 percent (the critical level established by the Minfin [Ministry of Finance] is 10 percent). We see taxes as the reason for this situation. The metallurgical enterprises paid around R4 trillion in the form of various deductions. We are putting it to the government that the maximum tax level should not exceed 40-50 percent of the book profits.

The metallurgists are also being alarmed by the increase in the rates for railway shipments (by a factor of 3.9 over 11 months—the cost of metal products is rising at a significantly slower pace).

[Smyk] The most capital-intensive sphere of metallurgy is the raw materials base. The last question is about it. What is the situation with respect to capital investments in this sphere?

[Afonin] In comparison with 1990, the capital investments in the raw materials base have declined by a factor of 5. Inasmuch as production in the metallurgical sector has fallen, the capital investments should have decreased, but, of course, not to the same degree. At a number of metallurgical combines, the situation with respect to raw materials is sufficiently satisfactory—they include the Novolipetsk, Oskolskiy, Cherepovets and Nizhniy Tagil combines.

But there are enterprises, especially those associated with deliveries of raw materials from the near abroad, which are perpetually frantic because of the situation with respect to the deliveries. One like, for example, Magnitka [Magnitogorsk Metallurgical Combine], designed for the ore from the Sokolovsko-Sarbayaskiy Mining and Dressing Combine in Kazakhstan. You would think that, under the market's conditions, these two enterprises should embrace and not abandon one another. Unfortunately, and not on the initiative of the MMK's [Magnitogorsk Metallurgical Combine] manager, Anatoliy Ilich Starikov, there arose there unexpected complications which, I hope, they have managed to overcome.

Obviously, in order to exclude the possibility of the emergence of similar situations and to avoid the loss, either for Russia or for the other Commonwealth countries, of deposits which provide raw materials for their formerly unified metallurgical complex, it is necessary to act more decisively through the mechanism of the Interstate Eurasian Coal and Metal Association, which has been called upon to renew and to strengthen, on a new basis, the cooperative ties between the CIS [Commonwealth of Independent States] countries' metallurgical enterprises.

*Nuclear Power Station Safety Training

954E0710A Moscow ROSSIYSKIYE VESTI in Russian
16 Mar 95 p 3

[Statute RD-04-15-94 of Russian Federal Oversight of Nuclear and Radiation Safety on Testing of Personnel of Nuclear Power Plants and Organizations Operating Plants To Verify Their Knowledge of Nuclear Safety Regulations, Standards, and Guidelines, registered with RF Ministry of Justice on 9 December 1994, Registration No 742, approved by Order No 131 of 1 December 1994, and signed by Chief S.A. Adamchik of Inspectorate for Nuclear and Radiation Safety of Nuclear Power Plants; attachments 1 and 2 (Protocol blank forms) not translated]

[FBIS Translated Text]

1. General Provisions

1.1. The Statute on the Testing of the Personnel of Nuclear Power Plants and the Organizations Operating

the Plants To Verify Their Knowledge of Nuclear Safety Regulations, Standards, and Guidelines (hereafter referred to as the Statute) was drawn up on the basis of the Statute on the Russian Federal Oversight of Nuclear and Radiation Safety, approved by RF Presidential Directive No 283-rp of 5 June 1992, with amendments approved by RF Presidential Directive No 636-rp of 16 September 1993, and the Requirements for Organizations Operating Nuclear Power Plants (RD-04-03-93), approved by the Chairman of the Russian Gosatomnadzor (Russian Federal Oversight of Nuclear and Radiation Safety) on 26 May 1993 and enacted by Decree No 7 of the Russian Gosatomnadzor of 18 June 1993.

1.2. The Statute defines the procedures and requirements for the organization of tests of the personnel of existing nuclear power plants and of plants still under construction, the organizations operating the plants, and the enterprises securing the operation of the nuclear power plants (hereafter referred to as administrative personnel and specialists) to verify their knowledge of nuclear safety regulations, standards, and guidelines (hereafter referred to as safety standards).

1.3. The Statute will remain in force during the period of transition to the new licensing system of the Russian Gosatomnadzor for the issuance of licenses (or permits) to officials in charge of operational safety and technological processes (hereafter referred to as operational personnel) and officials in charge of departmental safety monitoring. After the licensing system has been instituted, the categories of personnel requiring a license (or permit) from agencies of the Russian Gosatomnadzor will no longer be tested to verify their knowledge of safety standards in accordance with this Statute.

1.4. Documents drawn up and instituted at nuclear power plants and in operating organizations and defining the procedure for verifying knowledge of safety standards must meet all of the requirements of this Statute.

1.5. At the request of operating organizations, the Russian Gosatomnadzor will approve lists of the administrative personnel, specialists, and operational personnel to be tested on their knowledge of safety standards.

Tests to verify the knowledge of safety standards in accordance with the lists of official positions will be conducted:

1.5.1. By the testing commissions of the central staff of the Russian Gosatomnadzor for the administrative personnel of operating organizations; safety directors and their deputies, chief engineers and their deputies in charge of operations, safety, and science of existing and projected nuclear power plants, and the chairmen and deputy chairmen of the central commissions of operating organizations and nuclear power plants.

1.5.2. By the testing commissions of the administrations of regional agencies of the Russian Gosatomnadzor for

the deputies of the chief engineer of existing and projected nuclear power plants (with the exception of the administrative personnel listed in Subsection 1.5.1 of the Statute); the administrative personnel and members of the testing commissions of enterprises contracted by operating organizations to perform work during all stages of the life cycle of the nuclear power plant in the choice of a site, design and construction, start-up, operation, and closure.

1.5.3. By the testing commissions of operating organizations and nuclear power plants with the mandatory presence of representatives of the Russian Gosatomnadzor for the administrative personnel (with the exception of the administrative personnel listed in subsections 1.5.1 and 1.5.2 of the Statute), specialists, and operational personnel of existing and projected nuclear power plants and the personnel of contracted enterprises (with the exception of the personnel listed in Subsection 1.5.2 of the Statute).

1.6. Operating organizations and nuclear power plants must use this Statute as the basis for their own statutes on the procedure for testing administrative personnel, specialists, and operational personnel and the personnel of contracted enterprises (in accordance with Subsection 1.5.3 of the Statute) to verify their knowledge of safety standards. These statutes must be approved by the Russian Gosatomnadzor.

1.7. The degree of knowledge of safety regulations, standards, and guidelines required of administrative personnel, specialists, and operational personnel will be stipulated in their official instructions.

1.8. Administrative personnel and specialists substituting for superiors must display the degree of knowledge of safety standards stipulated in the official instructions for these superior positions.

1.9. Tests of the knowledge of safety standards of administrative personnel, specialists, and operational personnel by the testing commissions of operating organizations and nuclear power plants may be combined with tests of their knowledge of job and production guidelines, but the results of the separate tests must be entered on separate protocol forms and certificates.

2. Organization of Tests

2.1. Organizational requirements of testing:

2.1.1. The administrators of operating organizations and nuclear power plants will be fully responsible for the preparation of administrative personnel, specialists, and operational personnel for tests of their knowledge of safety standards.

2.1.2. The test form or list of questions must be drawn up by the testing commission and approved by the chairman of the testing commission. The personnel scheduled to be tested should have advance knowledge of the questions on the list.

2.1.3. Administrative personnel and specialists will be tested in accordance with the annual testing schedule approved in accordance with the Rules of Organizing Work with the Personnel of Enterprises and Organizations of the USSR Ministry of Atomic Energy, endorsed by the USSR first deputy minister of atomic energy on 20 May 1989 (hereafter referred to as PORP-89). One copy of the schedule must be sent to the appropriate agency of the Russian Gosatomnadzor.

2.1.4. The administrative personnel and specialists of operating organizations and nuclear power plants must be tested on their knowledge of safety standards at least once every three years, and the operational personnel of nuclear power plants will be tested once every two years.

2.1.5. Newly appointed administrative personnel will be tested on safety standards no later than four months after the date of their appointments.

2.1.6. Random tests of personnel to verify their knowledge of safety standards may be conducted during comprehensive, special, and regular inspections by the Russian Gosatomnadzor, with the exception of operational personnel on duty.

2.2. Types of tests:

2.2.1. The following types of tests will be conducted to verify the knowledge of safety standards of the personnel of operating organizations and nuclear power plants:

primary—in accordance with Subsection 2.1.5 of the Statute;

regular—in accordance with Subsection 2.1.4 of the Statute;

special.

2.2.2. Special tests of the personnel of operating organizations and nuclear power plants to verify their knowledge of safety standards will be conducted in the following cases:

the institution of new safety standards;

the violation of safety standards;

the performance of duties assigned to a superior position;

the discovery of insufficient knowledge of safety standards during inspections by the Russian Gosatomnadzor;

after absences from work for more than six months (because of illness, leaves, or training sessions).

The special test will not alter the regular testing schedule.

2.3. Requirements for Testing Commissions

2.3.1. A testing commission will be set up in the central office of the Russian Gosatomnadzor for tests of administrative personnel and the chairmen and deputy

chairmen of the central commissions of operating organizations and nuclear power plants to verify their knowledge of safety standards (in accordance with Subsection 1.5.1 of the Statute). The membership of the testing commission will be approved by an order or directive of the chairman of the Russian Gosatomnadzor. Operating organizations will be entitled to appoint representatives to take part in the work of the testing commission (without the status of commission members) after their knowledge of safety standards has been verified by the testing commission of the central staff of the Russian Gosatomnadzor.

2.3.2. Testing commissions will be set up in the administrations of regional agencies of the Russian Gosatomnadzor for tests of the administrative personnel of nuclear power plants and the administrative personnel and members of testing commissions of contracted enterprises (in accordance with Subsection 1.5.2 of the Statute) to verify their knowledge of safety standards. The membership of the testing commissions will be approved by order of the administration chief of the regional agency of the Russian Gosatomnadzor. Operating organizations will be entitled to appoint representatives to take part in the work of these testing commissions (without the status of commission members) after their knowledge of safety standards has been verified by commissions of administrations of regional agencies of the Russian Gosatomnadzor.

2.3.3. The personnel of operating organizations and nuclear power plants (with the exception of the administrative personnel tested by the testing commissions of the central staff or administrations of regional agencies of the Russian Gosatomnadzor) will be tested on their knowledge of safety standards by testing commissions appointed by order of the operating organization or nuclear power plant. The members of these testing commissions must include representatives of the Russian Gosatomnadzor.

2.3.4. The safety testing commissions must have at least three members.

2.3.5. Operating organizations or nuclear power plants with large numbers of personnel required to take tests for the verification of their knowledge of safety standards may set up several testing commissions. The commission headed by the administrator of the operating organization or the chief engineer of the nuclear power plant will be the central commission. The chairmen and deputy chairmen of the central commission will be tested on their knowledge of safety standards by the testing commission of the central staff of the Russian Gosatomnadzor, and other members of testing commissions will be tested by the central testing commission of the operating organization or nuclear power plant, made up of individuals whose knowledge of safety standards has been verified by the testing commission of the central staff of the Russian Gosatomnadzor. Participation in the work of the testing commission by specialists (without the

status of commission members) in the same field as the individual being tested by the central commission of the operating organization or nuclear power plant is advisable.

2.4. Testing procedure:

2.4.1. Tests of administrative personnel and specialists by the testing commissions of the central staff and administrations of regional agencies of the Russian Gosatomnadzor to verify their knowledge of safety standards will be held on specific days of the week, to be reported to the operating organizations responsible for compliance with the testing schedule.

2.4.2. At least five days before the test date, operating organizations will notify the central staff or administrations of regional agencies of the Russian Gosatomnadzor of the names and positions of the individuals to be tested.

2.4.3. Verification of the knowledge of safety standards will be conducted by means of individual oral examinations. When operational personnel are to be tested for the first time, reports will be submitted to the testing commission on areas of training in the training and instruction center (including practical work skills), and in regular tests the commission will be informed of advanced training in the training and instruction center (or training and instruction station).

2.4.4. Personnel receiving an unsatisfactory grade (i.e., those who "fail" the test) will not be allowed to do unsupervised work or substitute for other personnel. They may be retested after at least a month.

2.4.5. Personnel who are retested on safety standards and do not pass the second time may be tested a third time after six months. The operating organization or nuclear power plant will submit detailed information (in any format) about the additional preparation of the individual to be tested and confirm that he is ready to be retested. If the grade on this test is unsatisfactory, the person may be tested again two years after the date of the third test. The operating organization or nuclear power plant will submit documents attesting to additional preparation for each subsequent test.

3. Registration of Test Results

3.1. The results of safety tests conducted by the testing commissions of the central staff and administrations of regional agencies of the Russian Gosatomnadzor will be recorded officially (see Addendum 1 for the sample protocol [not reproduced]) and entered on the certificate of examination. The knowledge of the examinee will be graded as follows: "Pass" or "Fail." One of these grades will be recorded in the protocol, signed by the chairman and members of the testing commission and the representative of the Russian Gosatomnadzor and imprinted with the proper stamp. The protocol will be kept on file

by the central staff or the administration of a regional agency of the Russian Gosatomnadzor for at least five years.

3.2. The results of safety tests conducted by the testing commissions of operating organizations and nuclear power plants will be recorded officially (see Addendum 2 for the sample protocol [not reproduced]) and entered on the certificate of examination. The knowledge of the examinee will be graded as follows: "Pass" or "Fail." One of these grades will be recorded in the protocol, signed by the chairman and members of the testing commission and the representative of the Russian Gosatomnadzor and imprinted with the proper stamp. The protocol will be kept on file by the operating organization or nuclear power plant for at least five years.

3.3. Certificates of examination should be of the standard format and should be filled out in accordance with the requirements of PORP-19 and include the following information:

- the date of the test;
- the type of test;
- the protocol number;
- the time of the next scheduled test;
- the signature of the commission chairman.

[Signed] S.A. Adamchik, chief of Inspectorate for Oversight of Nuclear and Radiation Safety of Nuclear Power Plants

[Boxed item]

Order No 131 of 1 December 1994 Approving Statute on Testing of Personnel of Nuclear Power Plants and Organizations Operating the Plants To Verify Their Knowledge of Nuclear Safety Regulations, Standards, and Guidelines

I hereby order that:

1. The Statute on the Testing of the Personnel of Nuclear Power Plants and the Organizations Operating the Plants To Verify Their Knowledge of Nuclear Safety Regulations, Standards, and Guidelines (RD-04-15-94) is approved.

2. The sections of the Standard Statute on the Testing of Managers and Engineering and Technical Personnel To Verify Their Knowledge of Nuclear Safety Regulations, Standards, and Guidelines (RD-3-3), approved by Decree No 16 of the Collegium of the USSR State Committee for Safety in Nuclear Power Engineering of 25 June 1985, pertaining to the testing of the personnel of nuclear power plants and organizations operating nuclear power plants within the territory of the Russian Federation no longer apply.

[Signed] Yu.G. Vishnevskiy, Chairman of the Russian Gosatomnadzor

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***Plight, Future of Coal Industry**

954E0757A Moscow PRAVDA in Russian 23 Mar 95
pp 1-2

[Interview with Yuriy Nikolayevich Malyshev, doctor of technical sciences, corresponding member of Russian Academy of Sciences, and president of "Rosugol" company, by Ivan Boltovskiy; date and place not given: "The President of 'Rosugol' Promises Only Good Things, Just as Any Other President"]

[FBIS Translated Text] Our interview is with Doctor of Technical Sciences and Corresponding Member of the Russian Academy of Sciences Yuriy Nikolayevich Malyshev. He is 55 years old and has spent almost 40 of these years working in the coal industry. He began as a worker in the Kuzbass and now heads the "Rosugol" company.

[Boltovskiy] Yuriy Nikolayevich, there was a wave of strikes by miners in February. People thought the coal industry was collapsing.

[Malyshev] We are in a difficult position. The output of coal in Russia now is 150-160 million tonnes, or almost a third, smaller than it was in 1988, but the main reason for this reduction is the decline of heavy industry. We could produce more coal, but there is no need for it. That is why I would not overdramatize the situation. Furthermore, the lapse in production finally provided us with a chance for restructuring.

In the past, during the Soviet years, it was impossible to take a break from work, and mining facilities everywhere fell into neglect. Suffice it to say that 70 percent of the mines are incapable of working in the market. The Rostov basin is a good example. Most of the seams there are from half a meter to one meter thick, and some miners cannot fit into the working section. Aside from the fact that these are inhuman working conditions, they are also highly unproductive.

Vorkuta is another example. From the geological standpoint, the field is not that bad and the coal is of good quality, but coal is not mined at that latitude, in the polar zone, anywhere else in the world. At one time it made sense to build a city there, but now we have other objectives. The cost of the coal, after all, has to include the maintenance of the whole city of Vorkuta and its population of 200,000. The watch method could lower the cost considerably, but our main problem there is the high number of near-barren beds that produce only losses. To get rid of this dead weight, we would have to close around 90 mines. Unfortunately, some people, including miners, will not acknowledge the need for this.

[Boltovskiy] But the reason for the strike was not this universal problem. There was a specific reason—the nonpayment of wages. The miners threatened to force the resignation of the president and government, but it seems to me that the company is responsible for its finances.

[Malyshev] The coal industry is the only subsidized branch of industry that depends largely on the budget. This, incidentally, is the case in almost all countries, and not just in our own. The state owes the branch around 900 billion rubles for last year, and consumers owe us around 2 trillion. You can judge for yourself who is to blame for the miners' lack of money. The government paid part of its debt in February and the beginning of March and granted tax and penalty deferments, but the debts owed by consumers cannot be collected by an arbitrary decision. That is why the situation is still the same as it was before the strike. Now we are settling our accounts for December and some for January, and in some places they are still making their November payments. The payment of wages poses particular difficulties in regions where most of the debts are owed by consumers. These include Maritime Kray, East Siberia....

[Boltovskiy] The company is having money problems, but you have an optimistic outlook, you are moving ahead with the modernization of production and making plans.... Where will you get the money for this?

[Malyshev] We will try to get the money with the help of the new conditions of economic management. We took out a mortgage on the "Obukhovskaya" mine in the Rostov region and established a joint-stock company. The Bulgarians have already expressed their willingness to invest money in it, and the Turks are considering this option. Of course, our own businessmen have also shown an interest in it. We have the same plans for the "Sokolovskaya" field in the Kuzbass.

[Boltovskiy] How much would the industry need for an untroubled existence? How much would it need for wages and development?

[Malyshev] A total of 14 trillion. We have managed to come up with 4 trillion, and now we still have to find around 10 trillion more. If we get part of the Indian debt, as the government decided we would, we probably could get by financially. Negotiations with the World Bank are under way. We could get 500 million dollars as a result, but we would not get the money until the end of the year.

[Boltovskiy] The most serious problem in the mines is the old and dilapidated equipment. I know that the equipment in Vorkuta has been in use for five or six years already. That is the reason for the higher accident rate. What gave rise to this problem? Was it also due to a lack of funds?

[Malyshev] You see, after the breakup of the USSR more than half of the machine-building facilities for the mining industry ended up in Ukraine. Today, however, converted plants in Yurga and Izhmorsk are producing almost the entire set of necessary equipment in Russia. Furthermore, these machines are not comparable in any way to the ones produced in Ukraine. Ours meet world standards.

[Boltovskiy] But the old equipment is not being replaced.

[Malyshev] The reason is that the mines do not have enough money to buy it. It is true that leasing allowed us to alleviate this difficulty to some degree. We have a centralized system for the negotiation of contracts with plants, and we buy sets of equipment and send them to the mines. The mines then pay the suppliers with their coal. This year we will get metal from metallurgists and send it to the manufacturers of the equipment. In this way, we hope to re-equip all of our highly productive faces within the next two or three years. Notice, please, that I did not say all of them, but just the ones producing a profit.

[Boltovskiy] As I see it, the sophisticated term "leasing" is being used to refer to the elementary practice of bartering goods. Whether we like it or not, we are still on the road to communism, and in its most primitive form. You mentioned Ukraine. How are the coal miners in the CIS countries doing today?

[Malyshev] They are plagued by difficulties. Ukraine already does not have enough of its own coal. It ended last year with a shortage of 17 million tonnes and asked us for help in covering the shortage. Ukrainian miners have made a beeline for Russian mines. There are particularly high numbers in Rostov, but some made it all the way to the Kuzbass and even to the North. Obviously, people who are living the good life would not travel so far from home to earn a living.

[Boltovskiy] Let us get back to your difficulties. Last year the company closed 15 mines, and this year it plans to close another 20. Thousands of people will lose their jobs. What is being done for their social welfare?

[Malyshev] Last year the number of people employed in our industry decreased by 70,000, but this does not mean that they were thrown out onto the street. This was the result of hiring limits.

[Boltovskiy] That sounds as if the problem hardly exists, but I recently heard of a case in which miners will be out of a job. The "Zapadnaya" mine in the Moscow suburbs will be shut down completely, and the people there are literally in a state of shock. They cannot imagine how they will earn a living.

[Malyshev] Regrettably, things do not always go smoothly. Nevertheless, we managed to create more than 7,000 jobs in the last two years. I could also cite other examples. There were settlements and cities in the Kuzbass, for example, where everything and everyone froze in winter. These were Anzhero-Sudzhensk, Berezhovskiy, the settlements of Gramoteyny and Krasnyy Kamen in Kiselevsk, and others. We supplied them with heat and did not hear a single complaint from the people there this winter for the first time in many years.

Last year we resettled 3,000 families from the Far North in southern regions. In view of the fact that there are tens of thousands of people just in Vorkuta who want to move

elsewhere, this may not sound that impressive, but it is something. In general, we are not standing still. We are moving ahead as quickly as possible, and we are not neglecting our people. Just consider the fact that around 30 percent of the people working for us are pensioners. When I visited a mine in Kiselevsk, I had a conversation with a miner who was almost 70.

"Tell me, pops, why are you still working at your age?" I asked him.

"Well, son, how could I live on a pension of 140,000?" he replied.

"If we gave you another 150,000, would you quit your job?"

The old miner immediately smiled and agreed that he could relax in that case.

We set up a branch pension fund and starting issuing a supplementary pension. It is cheaper for us to give a person this much money than to pay him 700,000 for just showing up at work. This benefited the company, and our veterans no longer have to use up all of their remaining strength just to survive.

[Boltovskiy] The World Bank has advised us to reduce the coal output by almost another 100 million tonnes and to speed up the closure of mines. No more than five or six of the 18 mines in the Pechora basin, for example, should still be there in a couple of years. Are we in danger of losing our industry because of the rate of reduction and closure that is effectively being imposed on us? What is the basis for the bank's advice?

[Malyshev] It sounds as if the bank knows more than we do about the future of our own industry. I feel that there is no need whatsoever to reduce output further. That is the first thing. The second thing is that there is no need to force the closure of mines. If the state had enough money to resettle the miners, create jobs, and so forth, then this could have been done in a hurry. In addition to the lack of funds, however, there is another problem. They are ready to close the mines in Maritime Kray right away, but what will the people there use for fuel? Finally, we cannot deprive our own industry of coal and then allow Russia to be crowded out of the world market, regardless of how much this might please someone else. That is our position, and the World Bank has recently displayed a better understanding of it. Therefore, we will renovate our industry with a view to reality.

[Boltovskiy] Nevertheless, we seem to have agreed to close at least 70 mines before the year 2000. No other country has been expected to do this so quickly. Finally, can we be certain that our consumers will not start using foreign coal? As you know, agriculture and light industry are already becoming unnecessary to us. More and more goods are coming from abroad. Could this also happen to the coal industry?

[Malyshev] As far as the World Bank is concerned, the negotiations are still under way, and the deadlines you mentioned are only suggestions. I have already stated my opinion and I am not going to repeat it. Now I want to say something about the consumers. Ukraine has already experienced what you described. "Azovstal," for example, is getting its coal from Poland instead of the Donbass. Something similar happened here recently. I am referring to the Lipetsk Metallurgical Combine, but I hope that this isolated incident does not become the norm.

My certainty that the industry will survive is based on the policy of my company. As long as there is coal, Russia will also continue to exist.

[Boxed item]

Interview Set in an Atmosphere of Miner Protests

Verkuta: The hunger strike of the leaders of the coal miners' trade union is continuing.

Kuzbass: A hundred miners from the "Severnaya" mine have also had to resort to a hunger strike.

Maritime Kray: Workers from the Mine imeni Artem and the "Avangard" and "Tsentrlnaya" mines are also on strike.

International Affairs

*Ukrainian-Japan Trade Relations Viewed

954K0542A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 21 Mar 95 p 3

[Article by Yevhen Pylyankevych and Yuriy Safiulin, Ukrainian State Scientific Research Institute for Marketing and Foreign Economic Information, under the rubric "Ukraine-Japan": "The Level of the Economy Determines the Nature of Foreign Trade"]

[FBIS Translated Text] President Leonid Kuchma's visit to Japan has been planned for March 1995. In the course of the visit a broad range of problems will be solved, including those in the area of foreign trade.

As of the beginning of 1995, the volume of foreign trade between Ukraine and Japan increased by almost 40 percent compared to the corresponding period of last year and came to \$140 million. The proportion of trade with Japan accounts for 5.9 percent of total trade with 40 countries on the Asian continent with which Ukraine has stable commercial relations. At the same time, the proportion in import operations stood at 21.9 percent, and in export operations—2.6 percent of the total volume of Ukraine's foreign trade with that continent. This substantial difference is a consequence of a large negative balance of foreign trade—\$38 million. The growth of the negative balance of foreign trade in the last year alone came close to 20 percent; this trend will continue in the future unless radical measures are taken.

In examining the commodity structure of foreign trade between Ukraine and Japan, we should note that products whose volume of sales is small prevail in exports. Exports of Ukrainian ferroalloys should be counted as one of the largest contracts signed by Ukraine and Japan. Compared to 1993, the volume of such exports grew from \$10.8 million to \$20.7 million in 1994, accounting for 7.3 percent of total sales of such products. A similar situation has developed with Japanese purchases of unprocessed aluminum for \$9.5 million (10.7 percent of the total volume of sales of Ukrainian aluminum). These two products account for 51.1 percent of all Ukrainian exports to Japan.

This can hardly be considered an accomplishment of Ukrainian foreign trade because the results of an analysis of trends in the world markets for these products indicate a quite unsatisfactory demand for them in various regions. Over time the demand will increase as design arrangements aimed at increasing the proportion of aluminum in the cars built are put into place. This is due to the need to comply with strict international norms for the ecological purity of exhaust gases which, in turn, has brought about a search for ways to reduce the weight of cars, especially passenger cars.

A far broader assortment of products is delivered from Japan to Ukraine. One in two pieces of office equipment, electric heating, or video recording devices, two out of

three copiers and pieces of equipment for photographic and cinema laboratories, one in three tape recorders, and one in four calculators is purchased by Ukraine in Japan.

The peculiarity of Japan's foreign trade lies in the fact that it is an opponent of barter (merchandise-swapping operations), especially with regard to goods that are brought into the country. In quantitative terms this peculiarity looks as follows. In 1994 the average proportion of barter operations between Ukraine and all foreign countries came to 42.6 percent, in trade with Japan—10.1 percent; in imports the proportion came to 37.7 and 15.6 percent, respectively, and in exports—46.3 and 0.5 percent. Protection of the domestic market against penetration by foreign goods through the virtual exclusion of barter operations combined with simultaneously ignoring this principle for exported goods ensures the high efficiency of Japanese foreign trade in general.

The gross domestic product (GDP) is a general indicator which shows the level of development of a country. In 1991, it came to \$26,935 per capita in Japan (the population being 124.8 million and the territory 377,700 square kilometers). According to data from the European Center for Macroeconomic Analysis, Ukraine's per capita GDP came to \$1,224 (the population being 51.9 million and the territory being 603,700 square kilometers). With the yearly rate of inflation at 2-3.5 percent, Japan has succeeded in increasing the GDP, which as of the beginning of 1994 reached \$33,838 (by the end of 1994, this indicator in Ukraine had declined to almost \$700).

Thus, as of the beginning of 1944 [as published], the volume of Japanese imports came to \$209.8 billion, and that of exports—to \$351.0 billion. Undoubtedly, Ukraine cannot rival Japan on these indicators because in our country they reached \$10.1 billion and \$10.2 billion, respectively, as of the end of 1994 (according to preliminary data from the Ministry of Statistics of Ukraine).

An analysis of the regional structure of foreign trade in Ukraine and Japan makes it possible to draw an important practical conclusion. Japan does not allow imports to or exports from any one country to exceed 30 percent (even in the case of the United States, with which Japan has the closest military, political, and economic ties, imports account for 23.0 percent and exports for 29.2 percent). At the same time, the volume of Ukrainian imports and exports in the case of Russia exceeds 50 percent, which is considered impermissible in the practice of world trade. This is due to the fact that in the event of a conflict, the excess share makes it possible to apply economic "leverage" in order to influence a trading partner which has become dependent on the timely and complete delivery of key products.

National Affairs

Marchuk Appointment Implications Analyzed

95P50095A Moscow MOSKOVSKIYE NOVOSTI in Russian No 17, 12-19 March 95 p 6

[Article by Sergey Tikhiy: "Yevhen Marchuk: I Came to Give You..."]

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[FBIS Translated Text] In the end, the true cause of the second "departure" of Masol, as in the first case, was a change in mood in the Kiev upper echelons. For three months the 67 year old Vitaliy Masol, who was surrounded by nine deputy prime ministers, had practically no influence on the government course. As much as the leftists supporting him have already gone over to opposition to the presidential course, they will probably agree to the "exit" of their nominee, and the Supreme Council, in accord with the Constitution of Ukraine, will approve the resignation of the head of the cabinet.

Yevhen Marchuk was appointed acting prime minister. For the first time the head of the Ukrainian government was not a former director (like Kuchma or Zvyahilskyy), nor a Gosplan UkSSR trainee (Fokin, Masol), but a person without direct connection to the economy, that is a long awaited politician with a high profile. However, this "profile" has a very specific feature notable for any country in the post-Soviet area: Yevhen Marchuk was a member of the KGB, less than a year ago he headed the Ukrainian intelligence service. The image of a man who is capable of ensuring long awaited order, gives Marchuk the highest chance of approval of his candidacy by the Supreme Council, as well as a positive reaction by the population.

The 53 year old General of the Army Yevhen Marchuk is by training a teacher of Ukrainian language and literature. De facto he became the leading figure in the government, when in November of last year he was named first deputy prime minister, having concentrated in his hands the administration of the power structures and the entire executive vertical. Even at that time there appeared numerous commentaries in the Ukrainian press about how "Ukrainian lessons in Marchuk's class" could result in great benefit to the state. Ever more often he is named as a major candidate for the third president of Ukraine. Although Marchuk himself emphatically avoids discussions on this theme. He declared that he will insist on adoption of a law on the Cabinet of Ministers, in which the powers of the government are delineated and principles of the interrelationship with the president and parliament are established. (It is significant that lately speaker of the Supreme Council Oleksandr Moroz has made the very same proposal.) This in fact means a disagreement with the presidential plans to make the head of the government his economic "assistant." As many observers have noted it is more a matter of Marchuk's intention to represent an independent layer of government, on which one can directly influence the working out of the political course, and if needed demonstrate his opposition to measures that had been taken. In other words, a repetition of the situation that occurred two years ago is possible, when Leonid Kuchma himself, then prime minister, took on political weight in the shadow of Leonid Kravchuk, the first president of Ukraine.

The naming of Marchuk signifies the final rejection of the original concept for the functioning of the state

machine conceived by Leonid Kuchma. The presidential administration, created as a kind of oversight and organizing organ in relation to the government, will more than likely become an ordinary secretariat for the head of state: it is hard to imagine the curator of all the power departments reporting back before an ambitious "30 year old boy" from the presidential entourage. It is necessary to keep in mind one more circumstance unpleasant for President Kuchma: having nominated Marchuk, he has in a way become the executor of the personnel plan of his traditional opponent. The edict appointing Yevhen Marchuk prime minister lay on the desk of Leonid Kravchuk a year ago. Having decided not to sign it, Kravchuk, in the opinion of many observers, committed a strategic error, one of those that brought about his June defeat. However, General Marchuk was nevertheless appointed deputy prime minister by Kravchuk several weeks before the second round of elections. If the nomination and confirmation of Yevhen Marchuk takes place, that will mean in fact that the president is definitely tying his political fate with Marchuk. Because to force this prime minister to go against his own will is hardly considered possible.

Why then did Kuchma, in spite of these obvious circumstances, take this risky step? It is likely that the president of Ukraine wants, come what may, without waiting for the end of the dismantling of the councils at all levels, to force the executive vertical to operate. And Marchuk is the only leader today who is capable of doing that. The new acting prime minister has already declared, in a interview with UNIAN, that he sees a solution in the introduction of a state of emergency, but not in the economy, rather in the government structures.

***Decree Implementing Crimea Measures**

954K0539A Kiev HOLOS UKRAYINY in Ukrainian
18 Mar 95 p 3

[Decree of the Supreme Council of Ukraine: On Carrying Out the Decrees of the Supreme Council of Ukraine "On Suspending the Law of the Republic of Crimea 'On Revising the Constitutional Foundations of the Republic of Crimea Statehood,'" "On the Political and Legal Situation in the Autonomous Republic of Crimea," and "On Carrying Out the Decree of the Supreme Council of Ukraine 'On the Political and Legal Situation in the Autonomous Republic of Crimea'"]

[FBIS Translated Text] Having reviewed issues relating to compliance with the decrees of the Supreme Council of Ukraine concerning the political and legal situation in the Autonomous Republic of Crimea, the Supreme Council of Ukraine has found the status of compliance with the Constitution and laws of Ukraine in the territory of the Autonomous Republic of Crimea to be unsatisfactory.

Despite the passage by the Supreme Council of Ukraine of the Decrees "On Suspending the Law of the Republic of Crimea 'On Revising the Constitutional Foundations

of the Republic of Crimea Statehood" of 20 May 1994, "On Compliance With the Decree of the Supreme Council of Ukraine of 24 February 1994 'On the Status of the Autonomous Republic of Crimea in Accordance With the Constitution and Legislation of Ukraine in Effect' and the Decree of the Supreme Council of Ukraine of 20 May 1994 'On Suspending the Law of the Republic of Crimea "On Revising the Constitutional Foundations of the Republic of Crimea Statehood" "' of 2 June 1994, "On the Political and Legal Situation in the Autonomous Republic of Crimea" of 22 September 1994 and "On Carrying Out the Decree of the Supreme Council of Ukraine 'On the Political and Legal Situation in the Autonomous Republic of Crimea'" of 17 November 1994, the Supreme Council of the Autonomous Republic of Crimea has not taken measures to bring the Constitution and laws of the Autonomous Republic of Crimea into compliance with the Constitution and laws of Ukraine.

The Constitution and laws of Ukraine have been egregiously violated by President of the Autonomous Republic of Crimea Yu.O. Meshkov.

In particular, a number of his edicts have been aimed at changing the existing system for the nomination and operation of the authorities in the republic.

In view of the above, and proceeding from Articles 71 and 97 of the Constitution of Ukraine, the Supreme Council of Ukraine hereby resolves:

1. In accordance with Point 31, Article 97 of the Constitution (Main Law) of Ukraine, the decrees passed by the Supreme Council of the Autonomous Republic of Crimea on 12 January 1995 "On the Regional Division of the State Property Fund of Ukraine in the Autonomous Republic of Crimea" and "On State-Owned Facilities in the Republic of Crimea and the Property of All-Union Public Organizations Located in the Territory of the Republic of Crimea" shall be canceled as contravening the Constitution of Ukraine, the Laws of Ukraine "On Property" and "On Privatizing the Property of State Enterprises," as well as the Edict of the President of Ukraine of 19 February 1994 "On a Uniform System of Privatization Organs in Ukraine."

2. The National Bank of Ukraine shall be instructed to step up the performance of its control and management functions with regard to the Republic Bank of the Autonomous Republic of Crimea and all commercial banks as regards compliance with the legislation of Ukraine in effect, and first of all the Law of Ukraine "On Banks and Banking."

3. The Cabinet of Ministers of Ukraine, with the participation of the Government of the Autonomous Republic of Crimea, shall take an additional inventory of all land resources in the Crimea and shall draw up a realistic program for the acceptance, settlement, and job placement of Crimean Tatars.

4. The Cabinet of Ministers of Ukraine shall be instructed to review, before 1 May 1995, the issue of increasing the rates of pay of the servicemen and staff of law enforcement organs of Ukraine in the Crimea, with a view to ensuring social protection for them, to a level comparable to payments made to the servicemen of the Black Sea Fleet.

5. Before 10 April 1995, the Ministry of Justice of Ukraine, jointly with the Ministries of Defense, Foreign Affairs, the Economy, and Finance, shall draft the Agreement Between Ukraine and the Russian Federation on the legal status of the stay of the Black Sea Fleet, its servicemen, and their family members who are Russian citizens in the territory of Ukraine and the amount of compensation paid to the state budget of Ukraine.

6. Before 1 May 1995, the general prosecutor of Ukraine, together with the State Property Fund of Ukraine, the Ministry of Internal Affairs of Ukraine, and the Security Service of Ukraine, shall thoroughly examine compliance in the Autonomous Republic of Crimea with legislation in effect concerning privatization, the acquisition of real estate by foreign commercial structures, and legality of the disposal of property and infrastructure of the Black Sea Fleet.

7. Before 10 May 1995, the Ministry of Justice of Ukraine, together with the Ministries of Foreign Affairs and Internal Affairs of Ukraine, shall take the necessary response measures with regard to violations of the Law of Ukraine "On Ukrainian Citizenship" in the territory of the Autonomous Republic of Crimea and shall submit coordinated proposals as to the amendments and additions to said law in light of international experience.

A proposal shall be made within the framework of existing CIS mechanisms to resolve the issue of official and working trips by people's deputies and representatives of other authorities to Commonwealth states.

8. The Ministry of Internal Affairs of Ukraine and the Security Service of Ukraine, in coordination with the units of the National Guard of Ukraine and the Ministry of Defense of Ukraine, as well as the Office of the General Prosecutor of Ukraine, shall, within the scope of their responsibilities, take immediate measures to step up the fight against organized crime, to bring to an end the operation of illegal paramilitary and armed detachments in the Crimea, and to defend the constitutional rights of Ukrainian citizens.

9. Taking into account egregious violations of the Constitution and legislation in effect in Ukraine, the general prosecutor of Ukraine shall resolve the issue of filing criminal charges against Yu.O. Meshkov, whose actions contain elements of crime envisioned in Article 166 of the Criminal Code of Ukraine (transgression of authority or powers of office), proceeding from the Edict of the President of Ukraine of 21 February 1995 which recognized that Edicts of the President of the Autonomous Republic of Crimea of 6 September 1994 "On the

Appointment of Heads of State Executive Power in the Rayons and Cities of the Republic of Crimea" and of 9 September 1994 "On the Organization of State Government in the Republic of Crimea During the Preparations for and Conduct of the Referendum on the Draft Constitution of the Republic of Crimea," "On Referendum on the Draft Constitution of the Republic of Crimea," and "On the Heads of Administrations" contravene Article 75-1 of the Constitution of Ukraine and Section 14 of the Constitution of Ukraine, which establishes the organization of the formation and operation of the local councils of people's deputies, as well as the Laws of Ukraine "On the Local Councils of People's Deputies and Local Self-Government" and "On the Formation of Local Organs of Power and Self-Government," and bring about the elimination in the Autonomous Republic of Crimea of the democratic principles of power structure in Ukraine.

10. President of Ukraine L.D. Kuchma shall be approached with a proposal to cancel the illegal acts issued by the organs of executive power of the Autonomous Republic of Crimea that run counter to the Constitution and laws of Ukraine.

11. The Provisional Commission of the Supreme Council of Ukraine shall continue its efforts to examine the political and legal situation in the Autonomous Republic of Crimea.

12. The Presidium of the Supreme Council of Ukraine shall be charged with monitoring compliance with the present decree.

[Signed] Chairman of the Supreme Council of Ukraine
O. Moroz
City of Kiev
17 March 1995

Economic Issues

*SOTSIS-GALLUP Poll on Unemployment, Poverty

954K0544A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 23 Mar 95 p 1

[Article by Candidate of Historical Sciences Oleksandr Stehnyi, leading research associate of SOTSIS-GALLUP, under the rubric "SOTSIS-GALLUP for DEMOKRATYCHNA UKRAYINA: "On the Eve of Comprehensive Voucherization"]

[FBIS Translated Text]

4. Is Mass Unemployment a Threat?

The latest surveys indicate that the population of Ukraine is primarily still concerned about the same problems: prices for foodstuffs, the financial standing of their families, and personal security. The issue of unemployment has become less of a priority. In the hierarchy of problems, unemployment ranks seventh, whereas a

special examination of this issue shows that the issues of job placement concern a considerably greater number of our citizens.

In particular, 76 percent of those polled indicated that they believe the threat of mass unemployment in Ukraine to be probable; only 15 percent are optimistic. Such an outlook is due to the economic crisis in Ukraine and the difficult position in which an overwhelming majority of state enterprises have found themselves.

With reference to the assessment of their personal chances, more than one-third of those polled indicated that they are likely to lose their jobs, although more than one-half expected to be able to avoid that lot.

An analysis of age brackets registered the fact that the proportion of those concerned about potential unemployment gradually decreases from the group of young people under 30 (27 percent) to respondents past retirement age (11 percent). It is interesting that the educational level of those polled influences the indicator of concern with unemployment. Thus, 41 percent of respondents with a secondary education considered unemployment likely, compared to 29 percent of professionals with higher education and college degrees.

Urban residents are more afraid of being left without a job than rural residents (by a margin of 7 percent). The capital city is something of an exception. In the capital, 27 percent share the concern about possible unemployment, which is actually equal to the corresponding indicator for rural residents (28 percent).

Finally, the highest proportions of clerical employees (51 percent) and workers (46 percent) indicated the likelihood of becoming unemployed themselves. Among specialists with college degrees, 36 percent see this as a prospect in the course of their labor tenure.

Poor and Rich

The beginning of market-oriented transformations coincided in time with the process of growth of the cost of living and social stratification of the population.

Almost one-half of the those polled believe that retirees should be classified as poor. One in five respondents believes that those working in the state sector are also poor (both employees of industrial enterprises and representatives of the intelligentsia); 14 percent of those surveyed think that a majority of the entire population of Ukraine may be considered poor. Interestingly, only 8 percent consider the unemployed to be poor, and 6 percent consider antisocial elements, i.e. bums, vagrants, and homeless people, to be poor.

As we can see, in the mass consciousness the notion of poverty is not viewed as a possible fault of the person himself but is tied to affiliation with certain social-professional groups and, indirectly, to the existing situation in Ukraine. Under such conditions the person himself is absolved of responsibility for his own welfare.

This point of view is hardly correct because the period of transition requires that people take an active attitude in life in order to overcome difficulties on the path toward affluence, because the state can no longer be everyone's guardian. State support is provided for the categories of strata lacking protection, primarily the elderly, disabled, and those incapable of working.

Forty percent of respondents termed merchants and businessmen in Ukraine rich. Almost the same proportion of those polled (38 percent) indicated the criminal underworld. In the opinion of one-fourth of those polled, those who are in power are rich in our country.

To the minds of 12 percent of respondents, the more rich people there are, the better it is for everyone. Almost one in five participants in the survey believes that our society does not need rich people. If we add to this the fact that one-quarter of the respondents pointed to a life of crime as one of the possible sources of enrichment, the quite biased attitude of the public toward enterprise becomes understandable.

Under the circumstances, it would be feasible for our domestic entrepreneurs to grasp that they should live in such a manner that the population would not distinguish them from other social strata. The Ukrainian businessmen should try to influence the political situation and public opinion in order to impart the following simple thought to the population: The better entrepreneurs and their businesses feel in a country, the better the country lives.

*State Property Fund Head on Privatization by Certificate

954K0523A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 25, 28 Feb, 2 Mar 95

[Interview in three installments with Yuriy Yekhanurov, head of the State Property Fund, by the Press Service of the National Educational Program for Market Economics and Privatization in Ukraine; place and date not given: "What Will We Be Able To Privatize in Exchange for Our Certificates? Yuriy Yekhanurov, Head of the State Property Fund, Responds to Readers of DEMOKRATYCHNA UKRAYINA"]

[25 Feb 95 p 2]

[FBIS Translated Text]

[Question] 1. Yuriy Ivanovych, what significance and role does the mass privatization that has begun in Ukraine have in the process of market transformations?

[Yekhanurov] It is impossible to set up the normal functioning of the market mechanism and attain economic recovery without privatization and changing the structure of ownership. Just take a look at how the state and nonstate sectors work today. Those in the former stand with their hands outstretched and eat away all

their subsidies, while those in the latter seek out opportunities, produce, and pay wages to their employees. Privatization will relieve the state budget of an unnecessary burden, make ownership work for everybody's benefit, and bring in additional funds to stabilize the monetary unit.

But you must agree that it would be unfair to take the property of the state, which several generations of all our citizens worked to create, and sell it to people with fat wallets. The mass privatization by means of cash property certificates, which we have begun by opening the first auction centers, is especially designed to ensure fairness. Each citizen will become the owner of a portion of this large wealth, a concrete portion of an enterprise.

[Question] 2. Just a year ago we were talking about privatization through privatization accounts. For some reason, this privatization did not "take off." What is the basis for this certainty that privatization by means of cash certificates will be successful? What makes the certificate better than an account?

[Yekhanurov] It is true that the system of privatization using nonmonetary accounts proved complicated and ineffective. Theoretically, everyone could participate in the open subscription for the shares of enterprises that were put up for privatization. But in practice... The procedure was very cumbersome and time-consuming. In addition, there was insufficient information and the mechanism by which enterprises were prepared for privatization was flawed. It is therefore not surprising that only one in 10 citizens made use of his nonmonetary account. Now the procedure has been greatly simplified. It is much easier to receive a cash certificate. The mechanism for dividing enterprises into shares and preparing them for privatization has also been significantly simplified. And the system of auction centers that has been created with the help of foreign experts will assure a rapid and fair distribution of the shares of enterprise that are being privatized among certificate owners who have applied to acquire these securities.

[Question] 3. Frankly, our state lags behind our neighbors in privatization matters. However, this allows us to study their experience and take into account their mistakes. For example, was Russia's experience with privatization analyzed, and what mistakes that were made during privatization in Russia will we avoid in Ukraine?

[Yekhanurov] It is true that there are some positive aspects to the delay, allowing us an opportunity to analyze the experience—positive as well as negative—of countries where privatization has already been conducted. For example, in contrast to Russia, Ukrainian certificates are registered and can only be used to acquire a portion of state property. The mistakes made by our neighbors in dividing enterprises into shares and in the way in which intermediaries take part in the process have also been taken into account. In designing the privatization procedure, we took advantage not only of

Russia's experience but also that of other countries, and we are working together with foreign consultants.

[Question] 4. How does one get a certificate? Can this be done at any branch of the Savings Bank—for example, in another city? Has a uniform fee been set? If so, what is the fee for legalizing a certificate?

[Yekhanurov] Citizens of Ukraine receive their certificates at branches of the Savings Bank, but only at the branch that serves them in accordance with their residence permit. A Savings Bank employee will check if your name is on the lists compiled by place of residence, fill out a certificate in your name, and make the necessary annotation in your identification document. Certificates for children are issued to their parents, who need to present their children's birth certificates. When you receive your certificate, you must pay a state fee in the amount of 0.3 percent of the face value of the privatization document as provided for by the decree of the Council of Ministers of Ukraine of 21 January 1993 "On State Charges." In addition, you must pay a property certificate processing fee in the amount of 2.5 percent of monthly minimum personal income, which is not subject to income tax.

[Question] 5. Is it true that to receive a certificate for children of divorced parents the written consent of both parties is necessary? Who and on what grounds may be refused a certificate?

[Yekhanurov] Yes, the consent of both parents is required. If one parent is absent, the property certificate is received by the other on the basis of the other parent's written consent. To be issued a certificate, you must have Ukrainian citizenship and a residence permit. In the absence of these, a citizen will not be issued a certificate.

[Question] 6. How can orphaned children take part in privatization? What are elderly people who live in remote villages and cannot get to a receiving center on their own but do not trust intermediaries to do?

[Yekhanurov] Children's institutions or public organizations that have been charged with the care of these children receive privatization documents. The interests of elderly people in the circumstances you describe are to be represented by official guardians or representatives who have been given the appropriate authorization.

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[Question] 7. Can the owner of a certificate sell it or transfer it to another person, for example, make a gift of it?

[Yekhanurov] No, an owner may not sell or give away his certificate. However, he can authorize another person to receive and invest the certificate by drawing up the necessary notarized document. He can also authorize a trust company to buy shares in a privatized enterprise in exchange for his certificate.

[Question] 8. Let us assume that I have received a certificate. What rights does it give me as an owner? Where should I go with it and what should I do?

[Yekhanurov] The main right that a certificate gives its owner is the right to receive a portion of the property of privatized state enterprises. The certificate is indivisible and can be used only once. That is why it is very important to make the right choice. You can acquire shares in the enterprise in which you work if it is subject to privatization, acquire shares in investment funds, authorize a trust company to acquire enterprise shares through an auction center, or directly take part in a certificate auction. In the last instance, you must submit an application to your regional auction center or an application receiving office that it has set up.

[Question] 9. What is a certificate receiving office? What information can a certificate owner obtain there? What kind of information and how much information does he have a right to demand?

[Yekhanurov] Property privatization certificate receiving centers are created by regional certificate auction centers. Part of their job is to accept certificates and applications for the acquisition of enterprise shares at the local level. The applications are sent to the regional auction center. At the receiving office, a certificate owner can familiarize himself with the notification regarding the beginning of the auction and the enterprises whose shares will be offered at this auction. The notification provides information about the principal kinds of products made by an enterprise and the enterprise's production volume, the size of its charter fund and the name of the chief executive officer, the value of its fixed capital and the percentage of wear, the number of employees, the size of the land plot, the financial results of its activity during the last two years, the face value of its shares, and the number of shares being offered for sale at the auction.

[Question] 10. What is an auction center? We are saying that the citizens of Ukraine have the right to exchange their privatization certificate for shares in an enterprise that is being privatized. What have auctions to do with this?

[Yekhanurov] A certificate auction is not a traditional auction at which the auctioneer determines the final price with the strike of his hammer. This is a mechanism created for conducting an open and fair subscription for the shares of enterprises that are being privatized. Because these enterprises differ with respect to their financial state, specialization, and location, the number of people who will want to buy the shares of any given enterprise will also differ.

The certificate auction is a way of ensuring a fair distribution of shares among those who submit applications for them based on the ratio between supply and demand. The more applications submitted for the shares of an enterprise, the fewer shares allocated to each

certificate. Acting legislation and the existing procedure provide that each owner of a certificate shall receive at least one share for his certificate. Financial intermediaries may submit applications to acquire two kinds of shares—at a restricted and at an unrestricted price. In the first instance, based on the results of the auction, an intermediary may acquire shares generally, and in the second, he is guaranteed that he will receive a certain number of shares depending on the outcome of the auctions.

[Question] 11. How long before an auction and by what means will the owners of certificates be able to obtain information about the shares of enterprises that will be sold at the auction?

[Yekhanurov] Information about enterprises whose shares will be offered will be published a month prior to the auction in the state information bulletin supplement entitled "On Privatization" in the newspaper of the State Property Fund, VIDOMOSTI PRYVATYZATSIYI. In addition, this information will be widely publicized in the periodical press and will be sent to all regional auction centers and receiving centers. Qualified assistance with respect to enterprises being offered for sale will be available at regional centers to anyone who asks for it.

[Question] 12. What guarantees do certificate owners have who have exchanged their certificates for shares in an investment fund or "entrusted" them to a trust company? What should they look out for?

[Yekhanurov] Before transferring his certificate to a trust company, a citizen should first find out if this financial intermediary is licensed by the State Property Fund. This information can be obtained from the State Property Fund, which also has available other information on the activity of financial intermediaries.

[Question] 13. Is it possible today, taking into account the experience of other countries, to predict what people will do with their privatization certificates: whether they will exchange them for enterprise shares, give preference to investment funds, or "entrust" them to trust companies?

[Yekhanurov] Actually people are turning in their certificates to exchange them directly for shares, although a large number of citizens are also availing themselves of the services of financial intermediaries.

[Question] 14. There is a widespread opinion today that all the best enterprises have been "distributed" and that only those that no one wants are being privatized by certificate. Is this true?

[Yekhanurov] No. If you look at the lists of enterprises whose shares are being offered at the first auctions, you will find that they include many interesting and promising properties. I do not want to name specific enterprises in order not to artificially "boost" demand for

their shares at the expense of others, but, believe me, there are such enterprises and plenty of them.

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[Question] 15. There is some negative feeling regarding the value of the certificate. People say, what is 1,500,000 karbovantsi today—what can one privatize for that amount? Can it be that the value of 1/52d of a millionth portion of state property is so cheap?

[Yekhanurov] The real portion of property received in exchange for a certificate is not just a number, but a real portion of acquired property. It can increase a great deal if the market price of the acquired shares rises. There are instances in Russia in which a share acquired a few years ago for vouchers is now valued at \$1,000.

[Question] 16. Let us assume that I have exchanged my certificate for the shares of a specific enterprise. What rights do I have as a shareholder? Am I guaranteed dividends? What real influence can I have on the way that an enterprise of which I have become a co-owner works?

[Yekhanurov] The rights of shareholders are defined by the charter of the joint-stock company and relevant legislation (in particular, the laws of Ukraine "On Economic Companies" and "On Securities and the Stock Exchange"). The principal rights are: the right to vote commensurate with the number of acquired shares, the right to obtain adequate information about the activity of the enterprise and plans for its development, the right to know the date when shareholders' meetings will be held, and the right to take part in these meetings. And, finally, the shareholder has the right to use his right of ownership as he chooses to sell or give away his shares without regard for other shareholders.

[Question] 17. Can residents of one oblast of Ukraine use their privatization certificates to acquire shares in enterprises located in other oblasts?

[Yekhanurov] Yes, they can. The residents of all oblasts may submit applications for the acquisition of the shares of any of the enterprises offered for sale by auction throughout Ukraine through the regional certificate auction centers that have already begun to function.

[Question] 18. In general, what should an investor pay particular attention to when choosing an enterprise? How can he learn of its financial state, the market prospects for its products, etc.? Or will people again have to make these choices blindly?

[Yekhanurov] Obviously, the enterprises that are most attractive to future shareholders are those with good prospects for earning profits. Clearly, this is not easy to determine in advance, and, moreover, the market is the market. However, even from the information contained in the announcement, one can find out the kind of product or products that an enterprise makes, the profitability of an enterprise, its location, and the size of the

land plot it occupies—and this is information that helps one make a choice. In addition, you can ask the advice of consultants or use the services of financial intermediaries, which employ experts who take on this job.

[Question] 19. How will the shares be divided between the labor collective of the enterprise and the owners of certificates "from outside"? Who will manage the enterprise if 70 percent of its shares are "scattered" among thousands of shareholders?

[Yekhanurov] According to the edict issued by the president of Ukraine on 26 November 1994, 70 percent of all property is to be distributed among holders of privatization certificates. The controlling block of shares will be held by those shareholders who acquired the greatest number of shares at the auctions. Further relations between shareholders are regulated by the legislation of Ukraine and the internal charter documents of shareholders' associations, which every shareholder has the right to become familiar with.

[Question] 20. How do you explain the doubts of managers and labor collectives of enterprises, who are reluctant about privatization? What arguments can you offer to disperse these doubts?

[Yekhanurov] The doubts of a certain portion of managers are quite understandable. It is obviously easier to be maintained by the state and receive subsidies and various benefits (and sometimes even to gain personally from these) than to have to shift for oneself and maintain production. However, the doubts of labor collectives are unjustified. Because the experience of enterprises that are no longer state-owned confirms that the employees of these enterprises work better and earn more. Meanwhile, employees of state-owned enterprises have not been paid their wages for half a year.

[Question] 21. Yuriy Ivanovych, is there anything you would like to add to what you have already told us? What do you wish people in connection with the start of mass privatization through cash certificates?

[Yekhanurov] I would like to urge all citizens of Ukraine again to get their certificates and to invest them. The shares of enterprises that are being privatized are a great value. It is time that we understood that no one will make us rich. We can only do that ourselves. Our participation in this important stage of privatization through certificates is a step towards prosperity, both for each individual citizen and for Ukraine as a whole. Take advantage of this opportunity.

Real Estate Leasing Put on Market Basis

954K0532A Lvov POST-POSTUP in Ukrainian No 6,
10-16 Mar 95 p 7

[Article by Maryana Chorna: "The Free Handout of Elephants Has Ended. The State Property Fund Has Approved a Package of Documents for Lease Permits"]

[Text] POST-POSTUP has already written about the problem of evaluating, selling, and leasing real property. Recall briefly the essence of the matter: The privatization of municipal facilities, in the process of which only the property of the facility is valued, and in particular leasing with buyout, has led to the fact that either "air" inside the walls and scraps of junk have been bought or the authorities have received real property worth millions for nothing. This process in and of itself has been regulated for the most part through the "intimate relations" of the lessor (officials of the mayor's office) and the lessee.

Three years ago, the residents of Lvov proposed replacing this system. The employees of the Municipal Property Administration headed by Volodymyr Drucheko found a kind of "antibribe"—the so-called "lease certificate." This was a security that could be acquired on a competitive basis at the mayor's office and that guaranteed the long-term leasing of accommodations. They reacted with stone silence to such proposals in Kiev, but with an uproar in Lvov, which concealed a bitter reluctance to lose the right to divide up real property and, thus, to get something for that division. But at last...

At last, on 30 January 1995, the Property Fund of Ukraine, based on a presidential edict, approved a whole series of documents that converted the right to lease into a wholly market commodity. Now we have statutes on permits to the right to lease buildings, structures, and accommodations, a statute on the procedure for setting the prices for such permits, and the technique for calculating them. The permit is valid with regard to those accommodations and real property that cannot be sold entirely for certain reasons. They are architectural artifacts first and foremost. The permit is also valid with regard to vacant accommodations that have no "objects of privatization."

They will sell the right to lease to those who are sitting on a lease with buyout—the most popular form of "grabitization" in Ukraine. The same permit is acquired by buyers of the objects of privatization in architectural monuments by those who are simply letting vacant accommodations. The duration of the lease permit is ten years. The holder gets with it, along with it, the right to sell, sublet, give as a gift, pass in inheritance, and pledge the right to lease real property, as long as it does not violate the terms of the lease as indicated in the contract.

Small business, which is not rushing to acquire prestigious sites today, receives the opportunity to acquire a modest permit to a cellar. The real property that is occupied by "privileged business" today will be able to be obtained several years later. And the ultimate aim—the replacement of the "grabitizers" with a class of owners—will be achieved, since before the end of its permit the latter will have gone bankrupt, together with the politicians who gave birth to them. The generation of business people from the "committees" by birth will retreat from the places they occupy not as a consequence

of revolution, but rather as a consequence of peaceful evolutionary progress. Instead, those who want to and are able to should not have to depend on the authorities who "give out" the accommodations, but can simply purchase a lease to the cellar from which the path to Rockefeller begins.

The processes of creating everyday "rents" is also being completed by the "labor collectives" of prestigious facilities, along with the lease permits. They have been buying facilities, or rather the junk in them, not in any way to become owners, but rather to resell them later to "sponsors." They did not buy them even when the very right to lease real property was virtually being given away. Now, no, since the permits for leasing accommodations have to be paid for right away.

The package of documents also has a Statute on the Procedure for Setting Permit Prices, which finally replaces the feudal-regional bribery rates that had to be given to the appropriate official, if not a whole gang of them, to get accommodations. The indexed balance-sheet value of a structure, the rate of depreciation deductions, a factor for the quality of the facilities, and a factor for the zone where the site is located are all taken into account therein, and those factors, moreover, have to be developed by the local authorities themselves. Instead of the ubiquitous "it seems to me," they have to be guided by strict and economically substantiated forms that the State Property Fund has not forgotten to make itself. The computed price for the value of a permit is moreover final only in those cases where it is being sold on a non-competitive basis, that is, for those facilities that are under lease with buyout. It is only an auction or competitive starting point for others, and demand will tell after that. The price is closer to a realistic one, however, even for the first category of buyers.

The Lvov version of the Statute is planned to envisage a whole series of nuances that were not in the nationwide document. In a sale at auction, for example, the last owner will have the right to see that improvements that he has made in the property are subtracted from the price. That right will provide an incentive for investment. The terms for the transfer of a permit from one owner to another over the 10-year term of the permit are also being specified—such agreements shall have to be notarized by the parties. There was also a great deal of work on establishing the quality factors for facilities and zones. The sale of nonresidential real property and the right to lease it, after all, is quite tangled in Ukraine—there are no evaluation specialists in this field.

Mr. Decker, who represents the East European Real Property Fund in Ukraine, has just now arrived in Lvov. This organization was created in the United States in order to educate those who have come to be occupied with the evaluation and sale of real property in Ukraine, and in order to assist in the creation of an association of such specialists. The association of assessors should be independent, private enterprises, and it is they that

should be entrusted with this work; otherwise, the iron laws of the telephone will begin operating again in the evaluation of real property (and permits for leasing it accordingly). Then the prices for "their own people" will drop to zero, and go through the roof for "outsiders."

Mr. Decker, aside from meetings with firms that are engaged in the sale of the greater portion of the real property—Rosan-Dovira and Balans—also met with representatives of a number of private firms at the Municipal Property Administration that have an interest in the evaluation of nonresidential sites, that is, almost 80 percent of the property that is still in need of privatization or the sale of permits for their long-term leasing. It looks as if we will soon have an association of evaluation professionals in Lvov and Western Ukraine.

So basements and abandoned attics, accommodations in ground floors and garrets, thousands of square meters the establishment of whose value virtually no one has yet tackled, will finally become a commodity in the full sense of the word. Taking into account the enormous scarcity of office space, this promises to be a very lively market in Ukraine. So the profits from the sale of the permits to the city budget will be pretty good as well. There will, moreover, be fewer burned-out wings, flooded cellars, and abandoned sheds. Those who pay for the right to lease will be forced to invest to get their funds back. And not pay the person who gave them the stamp, but rather all of us through the budget. The social justice we so love to talk about lies namely in that.

Underground Economy Seen Expanding

954K0532B Lvov POST-POSTUP in Ukrainian No 6,
10-16 Mar 95 p 2

[Unattributed report: "The Ministry of Statistics of Ukraine Warns That the Shadow Economy Is Gaining Steam"]

[Text] *The balance sheet of the income and expenditures of the population of Ukraine for January 1995 that was recently published by our Ministry of Statistics eloquently testifies to the fact that the Ukrainian underground economy is growing stronger with each passing day, and that the people deserve the credit for that.*

One cannot evaluate the figures cited by official sources in any other way. Judge for yourself. The nominal monetary income of the population in January decreased (compared to December 1994) by 6.6 percent. All official means of income decreased accordingly, except for pensions and monetary assistance, payments for which increased by 25.5 percent after adjustment for inflation. The population, on the other hand, bought approximately the same amount of products as in the prior month. Had the population not had income "on the side" and used only state sources of enrichment, its buying power would have declined in January, which did not occur. The reason for this is that the number of persons who live on wages alone decreases with every

day in Ukraine, and other channels of enrichment are thus being used. And if those channels are not under state control, that means that they are underground. Ukraine is thereby repeating the path of Russia, on whose territory there are now three times as many dollars as Russian rubles.

As for hard currency, by the way... even official statistics testify that the population of Ukraine purchased a full 460 billion karbovanetsi more hard currency in January than in December. And that is given the fact that the rate of exchange of the karbovanets fell by only a few thousand over that period. We are moreover talking only about currency acquired officially, at banks and offices. No one knows how much currency passed through the hands of the "moneychangers."

The situation in the consumer market is also changing with a definite trend. Citizens have to spend more and more money each month to acquire foodstuffs, and less and less for industrial goods. The principal reason for this is the economic policies of the KMU [Cabinet of Ministers of Ukraine], owing to which the cost of municipal services and foodstuffs is rising constantly, while the cash exchange rate of the dollar has essentially remained unchanged. This unfavorable ratio for the population between the rate of price increases for products and incomes, according to information from City Telerate, has led to a decrease in the physical volume of purchases, in particular 29 percent for sausage and smoked meats, 13 percent for milk, 8 percent for fruits, etc. The overall rate of price increases in January 1995 continued to outstrip the rate of increase of incomes. Prices increased by 21 percent, while the average income per person went up 17 percent.

*Legislation on Financial-Industrial Groups

Edict on Financial-Industrial Groups

954K0500A Kiev URYADOVYY KURYER in
Ukrainian 25 Feb 95 p 11

["Edict No. 85/95 of the President of Ukraine, Issued 27 January 1995: On Financial-Industrial Groups in Ukraine"]

[FBIS Translated Text] In order to promote the structural reorganization of Ukraine's economy, the acceleration of scientific-technical progress, greater competitiveness of goods originating in Ukraine, and the utilization of the advantages of the international division of labor, and in accordance with point 7-4 of Article 114-5 of the Constitution of Ukraine, I hereby RESOLVE:

1. To establish that business activity in Ukraine may be conducted in the organizational form of financial-industrial groups (hereinafter: FIG).

2. To approve the Statute on Financial-Industrial Groups in Ukraine (appended).

3. To establish that the combination of words "financial-industrial group" must appear in the name of the FIG.

The use of this combination of words in the names of business entities that have been created on a different basis than provided for in this edict is prohibited.

That business entities of Ukraine whose names include the combination of words "financial-industrial group" shall reregister within a period of three months in accordance with the requirements of this edict without payment for reregistration.

4. Until the question of assessing the value of fixed capital is decided in accordance with established procedure, to allow FIG's to approve the procedure for indexing their own fixed capital in the current year, with the requirement that they notify the state tax inspectorate agencies about the results within a period of five days.

5. To establish that the Antimonopoly Committee of Ukraine, with the approval of the Cabinet of Ministers, may grant an FIG monopoly status on condition that the FIG is carrying out a program to develop a priority branch of the economy of Ukraine and for the duration that it is carrying out such a program.

6. To grant the right to business entities of Ukraine founded on the basis of state-owned property or business entities with a portion of property that is state-owned to be participants in financial-industrial groups created in foreign states on condition that they receive permission from the Cabinet of Ministers of Ukraine and the National Bank of Ukraine. In this case, the founder on the part of the state is the State Property Fund of Ukraine (relevant central organ of state executive power responsible for managing such property).

7. That the Cabinet of Ministers of Ukraine submit to the Supreme Council of Ukraine a draft Law of Ukraine on Financial-Industrial Groups in Ukraine within the period of a month.

8. This edict enters into force on the day it is signed.

[Signed] President of Ukraine

L. KUCHMA

Kiev

27 January 1995

No. 85/95

Statute on Financial-Industrial Groups

954K0500B Kiev URYADOVYY KURYER in
Ukrainian 25 Feb 95 pp 11-12

["Statute on Financial-Industrial Groups in Ukraine Approved by Edict No. 85/95 of the President of Ukraine of 27 January 1995"]

[FBIS Translated Text]

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1. This statute establishes the procedure for the creation, functioning, reorganization, and liquidation of financial-industrial groups in Ukraine as one of the organizational forms of business enterprise.

2. For the purposes of this statute, the terms used below are defined as follows:

Financial-industrial group (hereinafter: FIG)—a charter or contractual juridical person created by industrial enterprises, organizations, banks, and other business entities by pooling (transferring ownership, management, including authorized management) property they own (have the right to use) and financial resources, as well as by transferring the right to manage economic activity for the purpose of centralizing the management of production, scientific, financial, and commercial activity.

Participant in an FIG—an industrial enterprise, organization, bank, or other business entity that is part of an FIG. **Authorized bank of an FIG**—a bank that is a participant in an FIG with more than 50 percent of its charter fund belonging to other participants in the FIG, which conducts the investment activity of the FIG and provides clearing and cash services to the FIG and its participants.

Authorized monopolist—an FIG that has been granted according to established procedure the exclusive right to engage in certain production, scientific, or commercial activity.

End product of an FIG—production consisting of materials, raw materials, semimanufactures, other components, scientific, technical, and technological developments, services; resources, energy, and materials used in production; spare parts for equipment, which have been produced (extended, carried out, supplied) by the participants in an FIG; as well as production produced by a participant in an FIG without the participation of other participants in the FIG on condition that this participant has transferred the ownership or management of all his property or the right to manage his economic activity to the FIG. The end product of an FIG is sold to consumers who are not participants in the given FIG.

3. Relations associated with the creation and activity of FIG's in Ukraine are regulated by this statute and other legislative acts of Ukraine.

The Cabinet of Ministers of Ukraine and the central organs of state executive authority of Ukraine may not impose any restrictions on the activity of FIG's in Ukraine that do not ensue from this statute.

The activity of foreign participants in FIG's is governed by the legislation of Ukraine unless otherwise provided for by Ukraine's international agreements.

4. FIG's may be created by a decision of business entities, a decision of the Cabinet of Ministers of Ukraine, as well as in accordance with Ukraine's international agreements.

5. Participants in FIG's may be Ukrainian and foreign juridical persons—business entities with all forms of ownership regardless of departmental or sectoral subordination, as well as natural persons that are business entities.

Participants in FIG's may be structural subdivisions of enterprises, organizations, associations, and other business entities that can be separated under acting legislation into independent economic entities—juridical persons.

Participants in FIG's may be commercial banks. In this case, the total share of the property of commercial banks in the charter fund of an FIG may not exceed 35 percent of this fund. There is no restriction on the number of banks that may be participants in an FIG.

Organs of state executive authority may not be participants in FIG's.

6. The participants in an FIG retain their status as juridical persons unless otherwise provided for by the charter documents of the FIG.

The rights and obligations ensuing from agreements concluded by participants in an FIG prior to joining the FIG are transferred to the FIG.

7. FIG's are created and function: on the basis of articles of incorporation and a charter (charter FIG's), if the participants of the FIG pool (transfer ownership, management, including authorized management) the property they own (have the right to use), or on the basis of articles of incorporation (contractual FIG's) if the participants in the FIG transfer the management of property they own (have the right to use), pool their financial resources, as well as transfer the right to manage economic activity.

8. The amount of the charter fund of an FIG may not be less than the minimum necessary amount established for the charter fund of a commercial bank in Ukraine.

9. The contribution of a participant in a charter FIG to its charter fund may be any kind of property and property rights, including the right to use land, natural resources, and duly registered rights to inventions, useful models, and industrial prototypes, as well as monetary funds in the national currency of Ukraine and in foreign currency. In forming a charter FIG, the size and composition of its working capital are specified by the articles of incorporation.

The contribution of a participant in a contractual FIG to the charter fund may be monetary funds in the national currency of Ukraine and in foreign currency, securities, the issuer of which is another business entity that is not a participant in the FIG, raw materials, energy resources, and other commodity and physical assets, supplies of finished end product, funds obtained by putting up property and property rights as security.

10. The articles of incorporation of an FIG are subject to mandatory prior expert analysis by the Ministry of the Economy of Ukraine and the Antimonopoly Committee of Ukraine, and if the FIG is created with the participation of business entities whose property is state-owned, by the State Property Fund of Ukraine (the relevant central organ of state executive power responsible for managing such property). Along with its articles of incorporation, the FIG must submit its organizational technical and economic plan to the Ministry of the Economy and a draft Certificate of Activity of the FIG to the Antimonopoly Committee of Ukraine.

The organizational technical and economic plan of the FIG must include a justification for the creation of the FIG, and the draft of the Certificate of Activity of the FIG must describe the scope and range of activity of the FIG. Failure to comply with these transforms the FIG into a monopolist.

11. Based on the results of their expert analysis, the Ministry of the Economy of Ukraine and the Antimonopoly Committee of Ukraine must within the period of a month either grant permission for the creation of the FIG or refuse permission citing the grounds for this decision.

The refusal of permission to create an FIG may be appealed to the Cabinet of Ministers of Ukraine by the initiators of the creation of the FIG, and the decision of the Cabinet of Ministers of Ukraine in this case is final.

12. The state registration of FIG's is governed by the procedure established by the Law of Ukraine "On Business Enterprise."

13. If an FIG is created with the participation of business entities whose property is state-owned, the documents specified in point 10 of this Statute and the FIG's certificate of state registration are submitted to the State Property Fund of Ukraine (relevant organ of state executive power responsible for managing such property), and the State Property Fund transfers the management of the relevant state-owned property pursuant to the articles of incorporation to the FIG within the period of a month. Placing state-owned property under the management of an FIG does not preclude the privatization of this property if the State Property Fund of Ukraine has made a decision to privatize this property. Otherwise, the privatization of state-owned property that has been placed under the management of an FIG is conducted according to a special procedure on the decision of the Cabinet of Ministers of Ukraine or in accordance with the legislation of Ukraine.

14. On the basis of the FIG's certificate of state registration, the State Property Fund of Ukraine lists the FIG in the Unified State Registry Book of Financial-Industrial Groups in Ukraine and issues the FIG a document confirming this.

15. An FIG acquires the status of a juridical person on the day that it is listed in the Unified State Registry Book

of Financial-Industrial Groups of Ukraine and may thereafter as an independent entity acquire property and personal nonproperty rights and assume obligations, be the plaintiff or defendant in court. An FIG has an independent balance sheet and a consolidated balance sheet, clearing and other accounts in the FIG's authorized bank, a seal, and blank forms bearing its name.

An FIG is not liable for the obligations of its participants that ensue from relations that are not connected with the activity of the FIG.

The participants in an FIG are liable for the obligations of the FIG in accordance with the articles of incorporation.

16. An FIG is created for an unspecified period of time, unless otherwise provided for in its articles of incorporation.

17. Any amendments to the articles of incorporation of an FIG are subject to state registration according to the same regulations as those governing the state registration of financial-industrial groups.

Within five days after registering amendments to the articles of incorporation, the FIG must notify the State Property Fund of Ukraine about the changes that have been registered so that the necessary entries can be made in the Unified State Registry Book of Financial-Industrial Groups in Ukraine.

18. An FIG is the owner of all property transferred into its ownership, of products produced as a result of its economic activity, of its earned income, and of other property acquired in ways that are not prohibited by law.

19. The property owned by an FIG, as well as property placed under the management of an FIG, may be confiscated by a decision of the court only in cases stipulated by the legislation of Ukraine.

20. An FIG creates a reserve (insurance) fund and other funds provided for by the legislation of Ukraine and the articles of incorporation of the FIG.

21. The FIG is managed by the board of directors of the FIG, which is composed of the chief executive officers of the participants in the FIG, an executive board of the FIG that is created by the board of directors, and other bodies if such are provided for by the articles of incorporation of the FIG. The powers and activity of these bodies are defined by the articles of incorporation of the FIG.

The entity of the FIG that represents the FIG in its financial-economic activity is the main enterprise—the juridical person that is formed by the participants in the FIG. One of the participants in the FIG may be designated as the main enterprise of the FIG if this participant transfers entirely all the property he owns (has the right to use) into the ownership (management) of a charter FIG, or transfers entirely the right to manage his financial-economic activity to a contractual FIG.

The main enterprise of a charter FIG manages the state-owned property (portion of property) of the participants in the FIG that are founded on state-owned property; is the authorized manager of other property transferred to it by the participants in the FIG; makes dispositions regarding property that is owned by the FIG.

The main enterprise of a contractual FIG:

- is the authorized manager of property transferred by the participants in the FIG if this is provided for by the articles of incorporation of the FIG;
- manages the financial-economic activity of the FIG within the limits agreed upon in the articles of incorporation of the FIG.

The main enterprise of an FIG must be a business entity of Ukraine.

The main enterprise of an FIG has the exclusive right to sell the end product of the given FIG.

22. The participants in an FIG create or designate from among the participants in the FIG the authorized bank of the FIG. The participants in an FIG may include any commercial bank in the FIG and designate it as the authorized bank of the FIG. This bank must obtain a license from the National Bank of Ukraine in accordance with established procedure to engage in foreign exchange transactions and permission to conduct investment activity.

23. The authorized bank of an FIG may acquire property rights with respect to the property of the FIG without any restrictions. The authorized bank of an FIG, which is a business entity of Ukraine, is regarded as a strategic investor with respect to that portion of the FIG's property that is state-owned.

24. The authorized bank of an FIG may create a consolidated group with other financial-credit and financial-investment institutions that are participants in the FIG for the purpose of consolidated taxation of their activity in that portion of it that is conducted outside the scope of the financial-economic activity of the FIG. Such a consolidated group may be designated as the authorized bank of the FIG.

25. The payer of taxes and other mandatory payments that are collected on the basis of the results of the financial-economic activity of the FIG as a whole is the main enterprise of the FIG (and not the participants in the FIG), which pays these at the location at which the participants in the FIG are registered.

26. The participants in an FIG pay taxes and other mandatory payments on the basis of the results of financial-economic activity that is not connected with their participation in the FIG individually.

27. An FIG defines its own depreciation policy and may concentrate depreciation allotments in the authorized bank of the FIG for subsequent targeted use.

28. The reciprocal supply of the components of the end product of the FIG and the rendering of services among participants in the FIG are regarded as operations among structural subdivisions of a single enterprise (organization); in this case, taxes, duties, and other mandatory payments are not collected.

29. In order to create favorable conditions for the entry of an FIG's products into foreign markets and to attract foreign investments in the form of technological equipment, an FIG may apply to the Cabinet of Ministers of Ukraine for a reduction of export-import duties on products that are not components of the end product of the FIG and are imported (exported) by the FIG for its own production needs. Such benefits are granted by the Cabinet of Ministers of Ukraine for the period of one year.

30. The movement across the customs border of Ukraine of components of the end product of an FIG among FIG participants is conducted in accordance with the technological flow chart accompanied by certificates of origin of each product and is not subject to licensing and quotas, except in the instance of the movement of products designated for defense purposes. A component of the end product of an FIG dispatched abroad to enable a participant in the FIG to perform a technological operation must be transferred within 90 calendar days from the day of receipt to the next participant in the FIG in the form specified by the technological flow chart; if the technological cycle is such that it is impossible to make the transfer in the designated period of time, permission to exceed this deadline must be obtained from the Ministry of the Economy of Ukraine. The amounts of components of the end product of an FIG used to create the end product which are moved across the customs border of Ukraine are defined according to material specifications on the basis of which the production cost of the end product is calculated. If these amounts are exceeded, officials of the FIG are held liable in accordance with the legislation of Ukraine.

31. An FIG conducts accounting with respect to its activity and statistical reporting in accordance with the legislation of Ukraine.

A participant in an FIG conducts separate accounting and statistical reporting with respect to his activity as part of the FIG and all his activity and submits reports to the main enterprise of the FIG. The authorized bank of an FIG submits reports to the main enterprise of the FIG and also to the National Bank of Ukraine, state tax inspectorate agencies, and state statistical agencies in accordance with the legislation of Ukraine.

The main enterprise of an FIG compiles and submits a consolidated report according to established procedure to the state tax inspectorate agencies and state statistical agencies.

A participant in an FIG submits an independent report to the state tax inspectorate agencies and state statistical agencies on activity conducted outside the FIG.

32. The activity of an FIG is controlled and audited by the organs of the state tax inspectorate, the National Bank of Ukraine, the Antimonopoly Committee of Ukraine, and other state agencies within the limits of their jurisdiction, auditing organs and organizations.

33. The liquidation of an FIG is conducted: on the decision of the participants in the FIG if the period for which the FIG was created has expired, or in cases or on grounds provided for by the articles of incorporation; on the decision of the court (arbitral tribunal) in cases provided for by the legislation of Ukraine.

34. The liquidation of an FIG is conducted by a liquidation commission that is created, accordingly, by the participants in an FIG or a court (arbitral tribunal), who determine the timetable and procedure for liquidation, as well as the period of time for lodging claims by creditors, which cannot be less than three months. The liquidation commission publishes announcements about the liquidation of the FIG in the HOLOS UKRAYINY and URYADOVYY KURYER newspapers that include the procedure and deadline for lodging claims by creditors.

35. The liquidation commission assesses the value of the existing property of the FIG, who it belongs to, settles accounts with creditors, conducts activity to pay off the debt obligations of the FIG, compiles a liquidation balance sheet and submits it, accordingly, for approval to the participants in the FIG or the court (arbitral tribunal). The property of the FIG that remains after the claims of creditors are met is utilized in accordance with the decision of the participants in the FIG or the court (arbitral tribunal), with priority given to the claims of the State Property Fund of Ukraine (relevant central organ of state executive power responsible for managing such property).

36. An FIG is regarded as liquidated from the day that it is removed from the Unified State Registry Book of Financial-Industrial Groups of Ukraine.

[Signed] Head of the Administration of the President of Ukraine
D. TABACHNYK

Armenia

*MVD Official Details Police Priorities

954F1908A Yerevan RESPUBLIKA ARMENIYA in
Russian 23 Mar 95 p 3

[Interview with republic Deputy Minister of Internal Affairs Ovanes Unanyan by Dzhuletta Amirkhanyan; place and date not given: "Crime Channel. New Priorities of the Armenian Police"]

[FBIS Translated Text] About this and also the thankless mission of the sanitation engineer—interview with republic Deputy Minister of Internal Affairs Ovanes Unanyan.

[Amirkhanyan] The Ministry of Internal Affairs leaders have achieved improvement in the crime situation in Armenia at a high price. If all the attacks on you are generalized, they amount to two assertions: The state is becoming a police state, and the Ministry of Internal Affairs is the first to violate the laws. What do you have to say about this?

[Unanyan] Those who call our state a police state would not dare to express such an idea in the real police state in which we lived just a couple of years ago. As for violations of the law by the Ministry of Internal Affairs, one can partially agree with that. But the letter of the law is violated by police of developed countries because a specific operational situation frequently makes it face a dilemma: either the letter of the law or the prevention of another crime. We are not disturbed when the American police beat up criminal riff-raff. When the American police are looking for an occasion and they create one in order to file criminal charges against a recidivist and murderer, we are not disturbed about this either. But when the Armenian police do the same thing there is a storm of protest and public indignation. Of course, ideally one should operate within the framework of the law in any situation. But if even in countries where the legislation gives the police greater rights and possibilities of maintaining law and order they still do not always operate with white gloves, what can you say about us? The unprecedented rise of crime during the first years of the new regime threatened total destruction of law and order—this most important condition for the existence of a state, especially a state that is just being born. Bold counter-steps were needed on the part of law enforcement organs, and we took them.

[Amirkhanyan] A painful blow has been dealt to the crime world: Anyone who ended up [line illegible] his criminal notoriety left the country and the "small fry" went into hiding. Raids, roundups, and arrests followed in a continuous succession. At the same time, illegal weapons were confiscated from the population. But the main thing was that the new internal affairs minister declared a serious war on protectionism and even issued an order prohibiting paying attention to highly placed protectors of crime bosses. As a result, the connection

between the crime world and representatives of power structures was broken, and the crime curve turned downward. I think justice must pay attention to the specific nature of the historical moment and forgive the Armenian police for their transgressions in the name of law and order. The game is worth the candle. But this is a game from which we must withdraw in time. Does it not seem to you that the time has come?

[Unanyan] Undoubtedly. The collegium of the Ministry of Internal Affairs that met in January of this year may be considered a turning point. The priority task from now on is qualitative improvement of internal discipline and disclosure of cases of violation of the law by police services. "We must not wait for these cases to be discovered by the procuracy. This is primarily a task for us ourselves"—it is hard to disagree with these words of Vano Siradegyan. Present at the meeting of the collegium was the procurator general of the Republic of Armenia, Artavazd Gevorgyan, who was convinced that the Ministry of Internal Affairs is giving priority to this task.

[Amirkhanyan] In society quite recently there was a lot of talk about signs of bad relations between the republic Procuracy and Ministry of Internal Affairs. The mutual dissatisfaction and a prejudicial attitude were observed among workers of these law enforcement organs as well. Will they ever reach an agreement?

[Unanyan] The leaders of the republic Procuracy and Ministry of Internal Affairs have always arranged their relations based on the interests of the matter. This is a case where for particular purposes certain political circles have made a mountain out of a molehill, trying to provoke a confrontation between these law enforcement organs. Fortunately, both the procurator general and the minister of internal affairs understand this well.

[Amirkhanyan] How do you intend to improve the quality of police work in the absence of a Law on the Police?

[Unanyan] The Law on the Police is indeed crucial and the draft of it was prepared long ago. The problem is that first of all it is necessary to adopt the country's Constitution, and then other laws. But we cannot wait with our hands folded for this. In Moldova, for example, the Law on the Police was adopted back in 1991. What we have left to do, as much as possible, is to bring the actions of the police for maintaining law and order and fighting crime into line with the realities of the day. To this end at the January meeting of the collegium of the Ministry of Internal Affairs a decision was adopted to enact the new Disciplinary Regulations. To a certain degree they regulate the rights and responsibilities of the police and establish the hierarchy when determining punishments and incentives and the types of them. The principle of differentiated assessment of the work of each, which is included in the regulations, is also a motivating factor whose significance is difficult to overestimate. This incentive is essentially lacking today since the all-Union

disciplinary regulations became ineffective long ago. Thus according to the old regulations the firing of an officer or a demotion took place only with permission from Moscow and the actions of chiefs of administrations and the rayon internal affairs departments were strictly limited. All serious issues were resolved only in the center. The new regulations also take into account the specific national characteristics. For example, the guard house is almost the most insulting type of punishment for the Armenia police.

[Amirkhanyan] You mean that this punishment is not included in the new regulations?

[Unanyan] Of course it is, and it has special force.

[Amirkhanyan] Under the old regulations a police worker practically did not have the right to fire his weapon. In the most extreme cases—when arresting a dangerous or armed criminal, when stopping a serious crime—before firing his pistol he had to figure out whether or not situation would meet all the fine points of what was and was not permitted. How is this problem solved today?

[Unanyan] A multitude of prohibitions on the use of weapons that were not justified even in Soviet times simply keep the police from performing their duty today, thus creating an immense danger to the life of law-abiding citizens. In 1992 in New York only eight policemen died in the performance of their duty. In England an average of seven or eight police workers die each year. Such low numbers are achieved precisely because of flexible laws that permit the police to use weapons. When the draft of the Law on the Police is discussed in parliament, this question requires careful study. Yes, many of the restrictions have been removed. But the principle of a pro forma approach to the matter remains.

[Amirkhanyan] One can fire if the criminal has already fired... If there is a particular distance between him and the policeman... But does it not seem to you that behind all these restrictions lies the legislator's fear that the police will turn into "legal" murderers?

[Unanyan] It seems that the legislator forgets that the same law prohibiting murder exists for everyone, including the police. But the police are dealing with people who kill or are prepared to kill. Is there any point in placing additional restrictions on people in the vanguard of the fight against crime? Every policeman is fully responsible for his actions not only to his immediate superiors but also, and this is the main thing, under the law. And that is quite obvious.

[Amirkhanyan] Is it true that the Ministry of Internal Affairs is going to have a personnel cutback?

[Unanyan] When crime was on the rise during 1990-1991 it was necessary to quickly increase the number of personnel in practically all the subdivisions of the system of the Ministry of Internal Affairs. There was no time for

careful investigation of all new personnel, and many random people ended up among them. Today the operational situation has stabilized and there are too many policemen for the volume of work. We have had the opportunity to select personnel carefully. The largest cutbacks will come in the State Automotive Inspection (about 30 percent)—in view of the restriction of the functions of the State Automotive Inspection in connection with the socioeconomic changes (for example, today the automotive inspectors do not check to see whether private motor vehicles are being used for so-called selfish purposes). In the future attention will be devoted to the qualitative parameters of the State Automotive Inspection; people working here should have higher education, be well-behaved, physically fit, and their external appearance will also be taken into account. Personnel will be cut by 7 percent in criminal search and investigation. People will be weeded out through certification. Let me add that even before this the service for combating theft of socialist property and speculation was completely abolished, and in large cities—also the institution of precinct inspectors, and the number of personnel in several other services was reduced as well.

[Amirkhanyan] In the draft of the Law on the Police it is proposed to create a criminal police force. Will it be able to improve the solving of crimes under our specific conditions?

[Unanyan] The Ministry of Internal Affairs performs two functions: maintenance of public order and a task derived from this—fighting crime. Fighting crime is an important enough task that criminal investigation should not have other duties assigned to it, as is the case today. Today criminal investigation is also responsible both for crime prevention and for the growth of crime, which is an illogicality left over from Soviet times. The precinct inspectors had 176 functions. And as long as there are no municipal police, these functions are also assigned to the operations workers today. But the criminal police must have one task—to solve crimes. It must not, like the rayon internal affairs department today, be subordinate to local authorities, nor should it be subordinate to any other authorities along the vertical. Throughout the world the criminal police are a federal service, and that is what they should be here too. And then we would have equality of all under the law, and the number of crimes solved would undoubtedly increase.

[Amirkhanyan] It was in order to avoid equality of all under the law that the communist powers conceived this clever subordination of the police to the local soviets. This is also the source of all the disturbance, which reminded many of the words of Siradegyan to the effect that if necessary it was possible to file charges even against a state counselor. In the United States the police can fine the president of the country for exceeding the speed limit, drinking beer while behind the wheel, and also for polluting the environment by throwing an empty can out on the street (this happened to Lyndon Johnson).

[Unanyan] Some day we too will reach that point of wiping dust off the table. But for now we can say this: The Armenian police today are performing the thankless mission of the sanitation engineer who rids society of the greatest amount of its garbage.

[Amirkhanyan] Have you managed to do anything about the greatest garbage of all—the mafia? For it is known that it is flourishing with the help of the drug business, illegal trade in arms, an organized pornography industry, banking tricks, and rackets. We do not have arms trade or a pornography business. Nor do we have banks worthy of the mafia's attention. We are not sure about the rackets and the drug business. In any case there are various opinions regarding this. What is yours?

[Unanyan] The mafia is not as elusive as it may seem to many. And it could not exist without the types of forbidden business you listed. In Armenia we have neither illegal trade in arms nor organized prostitution, nor rackets with the dividing up of territories and spheres of influence. There is a latent racket within the criminal world when "small fry" pay off bigger authorities, and it is pointless to try to fight this racket. As for drug trafficking, only individuals are engaged in it today and they are operating at their own risk. Just a couple of days ago we arrested a representative of a once elite organization, a pilot at the Evartnots Airport, and we discovered that he had a large quantity of opium. If he had been functioning in connection with high officials of the Ministry of Internal Affairs system, the Procuracy, the Council of Ministers, or, finally, with a parliament deputy—then it would have been possible to speak of a mafia structure. But that does not mean that there is no danger of the formation of a ramified system of drug trafficking, if only because Armenia could become a transshipment point for the world drug mafia. And so there are no sources feeding the mafia. There is no connection between the criminal world and the state structures or laundering of "dirty money." All that would be difficult to conceal in such a small country as Armenia. Proof of this is the discovery of a mafia-like structure in Goris. A candidate to be a local don was arrested (incidentally, half the city bears his name). Things would not get this far in Yerevan.

[Amirkhanyan] But the social base for crime still remains. What is your prediction for the future?

[Unanyan] I think the decline of crime will stop sometime toward the end of this year. If we look beyond that, we can expect a rise in crime caused by objective factors: economic reforms, the development of democracy. That is inevitable.

[Amirkhanyan] What actions are you taking in this connection?

[Unanyan] The most important task is to increase the percentage of crimes that are solved. Last year it was 36 percent higher than in 1993 and it was exclusively as a result of reducing the number of crimes. According to the

figures, the level of solving crimes itself remained the same as it was. To increase the percentage of crimes that are solved while reducing the crime rate is a difficult task, and it is very crucial today. If someone wants to commit a murder and is 90 percent certain that it will go unsolved, he will commit it. And if someone wants to commit a petty theft but knows that he will inevitably be caught, he will not do it. Increasing the percentage of crimes that are solved is the best means of preventing crime. At the January meeting of the collegium of the Ministry of Internal Affairs which I have already mentioned there was also discussion of the need to increase the percentage of serious crimes that are solved. And a priority criterion will be introduced for evaluating police work—the indicator of the percentage of crimes solved in past years.

[Amirkhanyan] But that is an extremely difficult task—to solve a murder or a mugging committed five or six years ago, or even a year ago. What are you counting on?

[Unanyan] Not so much on the exceptional talents of criminal search and investigation workers as on their conscientiousness and professionalism. For the second year now there have been courses in the higher police school for improving the qualifications of criminal search workers. If anybody does not have the necessary professional level and sense of responsibility, sooner or later such people will have to leave the Ministry of Internal Affairs system.

Azerbaijan

*Chemical Industry Problems Detailed

954F1922A Baku VYSHKA in Russian 25 Mar 95
pp 1-2

[Article by VYSHKA special correspondent G. Bezkorovanny: "The Chemists' Heavy Burden: In Search of a Way Out of the Crisis"]

[FBIS Translated Text] Sumgait—Before leaving to go to Sumgait, we telephoned Fikret Sadykhov, president of the Azerkhimiya state concern.

"As compared with the corresponding period of last year, the production of output by our enterprises was 81 percent," he reported. "If the next increase in the prices of energy carriers does not occur—and our production is very energy-intensive—we are planning to increase the volume of production. That will also allow enterprises in other branches to 'breathe' and make it possible to saturate the domestic market more completely with consumer goods."

Under the present conditions, 81 percent is a rather good achievement. For most industrial enterprises, 15-20 percent is a goal that is difficult to achieve and provides the opportunity to preserve a skeleton force.

For chemists, the situation is a bit more complicated than in the other branches because of the specifics of

production. In order to start up, for example, an EP-300 ethylene-polyethylene unit, it is necessary to burn 3,000-4,000 tonnes, and it takes six to eight days. That is why, at chemical plants, they go to any expense just to keep the units operating. Even at 25-30 percent capacity, the amount of energy used to maintain the technological process is almost as much as when operating at maximum work load, but it is necessary to choose the lesser of two evils.

What enabled the Azerkimiya enterprises to rise to the 81 percent marker and even to plan, in the near future, a small increase in the production of output? Incidentally, for the time being, no one there is thinking about 100 percent work load: That is unrealistic. But chemists consider the guaranteeing of 100 percent of the domestic market to be a completely realistic job.

Azerkimiya succeeded within a short period of time in reorienting itself toward its own production of certain types of basic raw materials. For example, for sulfonmethane—a raw material for detergents—benzene is needed. It used to be delivered from Ukraine and Belarus. When the first interruptions in shipments began, at plants producing the SK and PAV [sulfonate additives and surfactants] they urgently began to construct units to produce benzene from byproducts of EP-300. The chemists were very lucky (if this can be called luck) about the deadlines. They started up the units in September, immediately after the closing down in August of the railroad in the northern sector. True, the amount of certain types of raw materials is sufficient to meet one-third of the need. But they managed to provide for their need for calcium chloride completely. It was more difficult to set up the production of calcinated soda, which had previously been supplied by Crimea. All available manpower was thrown into erecting the appropriate unit. By the end of the fourth quarter, the unit produced its first output. The situation has now been stabilized.

Worldwide practice attests to the fact that no country can provide itself with everything it needs. Much has to be purchased abroad. But even at home it is necessary to search for reserves. A problem arose with industrial salt, 200,000 tonnes of which used to be shipped in from Ukraine. It turned out that it can be obtained from waste products of enterprises in the Neftechalinsk iodobromine association. The first phase of the plant that is under construction there produced 3000 tonnes of raw material last year. In the current year it will produce 15,000-20,000 tonnes. It would have been possible to produce an amount several times greater, except that there are no funds for construction.

"It is possible to get money at the bank," Tagir Alkhazov, vice president of the state concern, says. "But the enterprises fear banks like fire. They need long-term credit. The 'short' manat is for trade. But we have a long production cycle. Getting credit is like crawling into a pit of debts without any real prospects of ever climbing out

of it. The interest rate for credit does not promise anything other than bankruptcy. It is surprising, but a fact, that the financial system does not operate for the producer, and the government encourages that."

Understandably, with the rise in the interest rate for bank credit, the increase in the prices of raw materials and energy carriers, and the increase in the profit tax and turnover tax, the amounts of money paid into the budget increase. But that is with the proviso that the rise in the interest rate and the increase in prices do not nullify the profit derived by enterprises and do not hamper turnover—that is, do not promote the curtailment of production, as is occurring with chemists.

"Within the next few years our concern can completely provide the republic with the necessary raw materials and consumer goods, and can greatly increase their production for export," Zeynal Guseynov, chief of the production administration and technical support, said. "No one is disputing the concept for the development of the branch until the year 2005, which was developed by Azerkimiya. But no one is approving it, either."

Whoever we talked to—and it was not only with chemists—enterprise managers are perplexed: Why isn't there a coordinator? They gave an example. The Azerbaijan GRES proved to be on the brink of shutdown because of lack of caustic soda. Chemists have it, but railroad cars are needed to deliver it to Mingechaur. The railroad requires prepayment, the chemists do not have any money. But the railroad workers are major debtors to the energy workers. They proposed: "Ship it and charge it to the debt you owe us. We will compensate the chemists for the expenditures against the payment of the raw materials." But the finance experts immediately dug in their heels: There is an order not to ship any output or provide any services without prepayment.

We are talking about the market. So if the suppliers are also simultaneously the nonpayers and there is an opportunity for the partners to come to an agreement among themselves, without any detriment to the state, and to carry out an operation that the state needs, why not authorize that? Furthermore, why not suggest that possibility? The payment mechanism has not been worked through.

Here is the latest example. The Orgsintez plant in Sumgait and the Salyany Plastics Plant produce polyethylene film. Our farmers are in serious need of that film in order to grow the early vegetables that Russians cannot do without. This is money for purchasing the raw materials and goods that the republic needs. The film is competitive on the world market. Not so much because of its high quality, although that quality is really not so poor, but because of the moderate prices. In a word, for the republic the production of this film is profitable from all sides. But then there was the sharp increase in the prices of energy carriers. And, whereas as 31 January 1995 a tonne of film cost 5 million manats, on 1 February the cost was 11 million.

"The Turkish and Iranian firms with which six contracts for the delivery of film were concluded late last year, and which in January purchased the first consignments of it, immediately suspended the purchase," Nureddin Nazarov, leading specialist in a marketing and sales department, said. "The film is cheaper on the world market."

Viktor Guliyev and Nureddin Babayev, directors of the Salyany and Sumgait plants, clutched at their heads. Within the near future the enterprises will have their warehouses stuffed with output that no one needs, and production will stop. People will be thrown out of work, and the republic will lose a channel by which funds enter the budget.

"But the film is not the basic product," Afag Zeypalova, the concern's chief economist, said. "The price of ethylene-propylene has jumped by a factor of five. This is the base raw material for producing consumer goods. The high-pressure polyethylene obtained from it is eagerly purchased in the near and far abroad. After the rise in prices of energy carriers, production costs for sulfonmethane increased by a factor of 2.1; epoxy resin, 2.5; and caustic soda and many other goods and raw materials, by a factor of two. Customers began looking elsewhere for them."

I looked at the mail sent to the president of Azerkimiya. There were inquiries, dated January and early February, from England, Egypt, Iran, Austria, Singapore, Turkey, and CIS countries expressing their desire to purchase the concern's output. Currently the flood of inquiries has dried up. So, if the closing of the railroad through the North Caucasus has completely complicated the life of the republic's chemical complex (maritime transport does not accept chemical cargoes), then the raising of the prices of energy carriers to the level of world prices has made the prices of the chemists' output higher than world prices and is undermining the output's competitiveness.

"Today the chemists are working not for themselves or for the republic, but for the banks and the people in the energy industry," Magomed Abdullayev, director of the Baku Tire Factory, said, throwing up his hands. "For whom is that profitable?"

There is one more nuance. The output that today is filling up the warehouses at chemical enterprises is needed primarily in the domestic market. If it is absent, the potential customer looks for it among our neighbors. We might recall the situation with Gubinsk apples, half of which were left rotting in the orchards so that we had to import apples from Iran. In order to survive, the republic has to buy products on the side—to live on imports. But if there is no production, primarily industrial, what will we sell in order to buy imported items?

What solution is envisaged by the people I spoke to? The state still has levers with which it can stop the further production recession. But if the privatization that

everyone has suddenly remembered should occur, those levers will prove to be in other hands.

And one more thing. The railroad across the North Caucasus will sooner or later resume operation. By that time it is necessary urgently to reconsider or, in general, following Kazakhstan's example, eliminate for producers the customs obstacles with the CIS states, primarily with Russia. Discussions to the effect that this step is beneficial only for Russia are groundless. Russian supplies and consumers suffer no less than ours. Even a 50 percent restoration of the previous volume of shipments and the export of output and raw materials will make it possible to supply the republic's needs entirely. In the opinion of people in production, there is no other solution.

***Debt to Russia Obstacle to Trade-Economic Treaty**

954F2025A Baku ZERKALO in Russian 1 Apr 95 p 2

[Unattributed report: "Will Russia Become Azerbaijan's Main Foreign-Economic Partner?"]

[FBIS Translated Text] The governmental delegation of Azerbaijan headed by deputy minister of economics Salekh Aliyarov set off for Moscow yesterday for talks on preparation for the trade-economic agreement between the two states. In advising the "Khabar-servis" agency correspondent of this, people in Azerbaijan's Ministry of Economics mentioned that the problem arresting progress in the preparation of this document is the still unresolved issue of Azerbaijan's debt to Russia. A similar agreement did not even go into force last year for that very reason. According to information available to the agency, Azerbaijan's foreign debt to Russia comes to about 80 million dollars. At the present time, Iran is the republic's leading foreign-economic partner, but if the Azeri-Russian agreement is in fact signed, Russia will again occupy the leading position. As was reported at the Ministry of Economics, at the upcoming negotiations, in addition to the trade-economic agreement Moscow also plans to discuss questions of customs control and taxation as well as removal of the blockades to transport communications between the two states.

***Agrarian Reform Program To Be Ready Soon**

954F2025B Baku GUNAY in Russian 5 Apr 95 p 1

[Unattributed ANS-press report: "Preparation of a Program of Reforms in the Agrarian Sector Will Be Complete Within the Next 2 Months"]

[FBIS Translated Text] "Work on preparing the program for conducting agrarian reform in Azerbaijan will be complete within the next 2 months," the leader of the World Bank's mission for conducting agrarian reforms, Roy Southworth, announced.

He noted that despite the crisis in the country's agricultural sector, he is satisfied with preparations for conducting the agrarian reform which the State Commission

headed by the country's vice premier Abbas Abbasov will oversee. In R. Southworth's opinion, there is an adequate legislative base for the rapid conduct of privatization whereby about 3 million landowners will appear in the country. Included in that base are the laws adopted by the Small Majlis, "On Reforming Kolkhozes and Sovkhozes" and the "General Concept for Conducting Agrarian Reforms," and in addition the draft law "On Land" which has been prepared.

Roy Southworth also reported that the amount of credit will be determined after work is complete to identify profitable segments of Azerbaijan's agricultural sector.

The representative of the World Bank noted that at the present time World Bank experts have begun developing a special program for creating private farms in Salyanskiy, Khachmazskiy, and Bardinskiy as well as Lerikskiy rayons. The World Bank intends to allocate on the order of 10 million U.S. dollars to realize this project.

The leader of the agrarian mission emphasized that a "Survey of Azerbaijan's Agricultural System" is being prepared based on the results of his stay in the republic, and it will be published during the mission's next official visit to the country in June of this year.

Latvia

*Regulations on Use of Foreign Loans

954F2031A Riga DIYENA (V SAEYME I KABINETE MINISTROV) in Russian 22 Mar 95 p 8

[Latvian Republic Cabinet of Ministers Regulation No 44: "On the Use of Foreign Credits Granted to the Government of the Latvian Republic," (Protocol No 13, p 2), signed by Prime Minister M. Gailis and Minister of Finance A. Piebalgs on 7 March 1995 in Riga]

[FBIS Translated Text] Published in accordance with Article 14 of the law, "On Reinstating the Effectiveness of the Law, 'On Arrangement of the Cabinet of Ministers' of 1 April 1925."

General Principles

1. The present regulations establish the order of distribution, use and repayment of credits granted to the Government of the Latvian Republic by foreign and international organizations (henceforth referred to in the text as "foreign credits").

2. Foreign credits are subject to use for purposes on which the Government of the Latvian Republic has come to agreement in the contract with foreign creditors. If the present regulations contradict those specified by the international agreement, the conditions set forth in the international agreement shall be applied.

3. The Ministry of Finance concludes an annual agreement with the Ministry of Economics on the amount of foreign credits and their application, and includes them in the budget draft law.

II. Distribution of Foreign Credits With Mediation of Commercial Banks

4. The mechanism of distribution of foreign credits—distribution of foreign credits with the mediation of commercial banks—establishes the order of granting foreign credits to entrepreneurs. The present regulations understand an entrepreneur to be any legal entity registered in Latvia, whose relative share of foreign investors in its fixed capital does not exceed 50 percent.

5. Credits are granted to entrepreneurs for projects whose terms of fulfillment comprise 3-7 years.

The use of credit for financing the working capital of each project is limited to the amount of 15 percent.

6. All projects utilizing the credits are realized in Latvia. Of the projects realized in the course of the budget year, no more than 40 percent are to be realized in Riga or in the Riga area. The Ministry of Finance is responsible for fulfillment of this condition.

7. Up until the moment of their use, foreign credits are deposited in a special account at the Bank of Latvia. The procedure of servicing the account, the interest rate on deposit and service charges of the Bank of Latvia are

established in accordance with the agreement between the Ministry of Finance and the Bank of Latvia.

8. In accordance with the agreement between the Bank of Latvia and the Ministry of Finance, the Bank of Latvia is authorized to perform the functions of financial agent of the Government of the Latvian Republic.

9. Commercial banks wishing to participate in the distribution of foreign credits must submit the appropriate application request to the Ministry of Finance. The application must state the name of the project, the amount of credit, its purposes, and the repayment schedule.

10. The Ministry of Finance, with consideration for the conclusions of foreign auditors regarding the activity of the banks in the preceding year, after consultation with the auditors, and also in accordance with the recommendations of the Bank of Latvia, determines which commercial banks will participate in the distribution of the foreign credits.

The Ministry of Finance publishes in its official publication, LATVIJAS VISTNESIS, a list of the commercial banks participating in the distribution of the foreign credits and the maximal amount of the loans realized with the mediation of the commercial banks. If the sum of requested credits exceeds the overall credit resources, the credit is distributed between the banks in proportion to the fixed capital of the banks.

11. Commercial banks service foreign credits in accordance with the agreement between the corresponding commercial bank and the Ministry of Finance regarding the use and repayment of the credit.

12. The credit limit to one commercial bank must not exceed 100 percent of its equity capital, by appraisal of the Bank of Latvia.

13. After receipt of the credit, every 6 months the commercial bank submits an auditor's report on the use of the credit to the Ministry of Finance. If the credit or part of the credit is used for purposes other than those specified in point 9 of the present regulations, the commercial bank returns the credit or part of the credit, at the same time paying interest on this sum in accordance with the refinancing rate set by the Bank of Latvia.

14. A commercial bank grants credit to an entrepreneur, computing the interest rate on the credit according to the following formula:

$R + B + LB + KB = P$, where

P is the rate of interest which the entrepreneur pays to the commercial bank;

R is the risk interest rate established by the government, which is transferred to a specially formed risk fund (2 percent);

B is the basic interest rate, which the government adheres to in granting the credits. The basic interest rate represents a variable rate of the international finance market, which depends on the specific date of granting the sums of credit;

LB are the expenditures of the Bank of Latvia for servicing the credit (0.5 percent);

KB are the expenditures of the commercial banks for servicing the credits (1.0 percent) and the risk percentages (5.0 percent)—up to 6 percent.

15. The commercial bank, within the times specified in the agreement with the Ministry of Finance, transfers the interest from the basic interest rate and the interest from the rate set by the Bank of Latvia to the account established by the Ministry of Finance at the Bank of Latvia.

The Ministry of Finance informs the commercial bank regarding changes in the basic interest rate within a period of 3 bank working days after receipt of this information from the foreign creditor.

16. A commercial bank participating in the distribution of foreign credits assumes full responsibility for repayment of the credit and interest on the credit, and underwrites this liability with its own assets.

17. If an entrepreneur wishes to obtain foreign credit, he must submit the following documents to the commercial bank:

17.1. Application with request for granting of foreign credit;

17.2. Auditor's report on the activity of the entrepreneur in the course of the past year;

17.3. Description of project to be financed;

17.4. Schedule for use of the credit;

17.5. Schedules for repayment of the principle sum of credit and interest on it;

17.6. Other documents which have significant importance in review of the question of granting credit.

18. The commercial bank reviews the documents listed in point 17 of the present regulations and, if it deems granting of credit possible, concludes a contract with the entrepreneur.

The commercial bank, upon agreement with the entrepreneur, has the right to utilize any form of securing of obligations specified in the legislative statutes.

19. After receipt of credit, the entrepreneur submits an auditor's report to the commercial bank every 6 months on the course of fulfillment of the financed project in accordance with the submitted project and the financial

and economic status of the entrepreneur. The commercial bank familiarizes the Ministry of Finance with the auditor's report within the course of 3 working days after its receipt.

20. If the auditor has found that the credit was not used for the intended purpose, the Ministry of Finance has the right to demand immediate repayment of the credit and the interest on the credit from the commercial bank, and to collect the debt in accordance with the procedure specified in the legislative statutes.

21. If the [auditor's] report is not received within a month after the time specified in Point 19 of the present regulations, the consequences provided in Point 20 of the present regulations shall ensue.

III. Distribution of Foreign Credits in Accordance With the Program of State Investments (Without Mediation of Commercial Banks)

22. The mechanism of distribution of foreign credits—distribution of foreign credits in accordance with the program of state investments—establishes the procedure for granting foreign credits for projects which are included in the program of state investments. The procedure for including projects into the program of state investments is established by the regulations of the Cabinet of Ministers on the order of preparation and realization of the program of state investments.

23. Coordination on inclusion of expenditures for repayment of credit to the state budget is required in order for foreign credit to be granted for realization of a project included in the program of state investments. If other sources of financing are to be used for repayment of the credit, confirmation of the presence of such sources and an auditor's report on the capacities for repayment of the credit are required.

The amount of foreign credit necessary for fulfillment of a financed project and the possible foreign creditor are determined by the Ministry of Economics.

24. After receipt of the Ministry of Economics report, the Ministry of Finance grants credit and concludes a contract with the implementer of the project on the use and repayment of the credit.

The Ministry of Finance provides for a risk interest rate in the amount of up to 5 percent in its contract with the implementers of the project.

IV Concluding questions

25. Cabinet of Ministers Regulation No 51, "On the Use of Foreign Credits Granted to the Government of the Latvian Republic," dated 15 February 1994 (LATVIYAS VESTNESIS, 1991, 31) and Cabinet of Ministers Regulation No 32, "On Coordination of Foreign Aid in the Latvian Republic," dated 14 December 1993 (LATVIYAS VESTNESIS, 1993, 131) shall be considered as no longer in effect.

26. The present regulations do not extend to those foreign credits which have been distributed prior to the time the said regulations go into effect.

27. Sums repaid by commercial banks and other credit recipients, which in accordance with the concluded agreements are held in the management of the Government of the Latvian Republic until full repayment of the credit to the creditor, are distributed in accordance with the present regulations.

28. The Ministry of Finance submits to the Cabinet of Ministers a quarterly report on the distribution and use of foreign credits.

[Signed] Prime Minister M. Gailis
Minister of Finance, Assistant Prime Minister A. Piye-
balgs

***Prime Minister Views Economic, Political Problems**

954F2030A Riga DIYENA in Russian 22 Mar 95 pp 2,6

[Interview with Prime Minister of the Republic of Latvia Maris Gailis, conducted by DIENA editor-in-chief Sarmite Elerte, commentator Ainara Dimants and correspondent Martinsh Kibilds: "My Principle—To Trust, Up Until the Moment When I Do Not Trust Anymore"]

[FBIS Translated Text]

[Correspondent] Your request to file criminal proceedings in the case of wages received by Minister Kreslinsh from the council of "Latvenergo", and your dismissal of "Latvenergo" President Koemets from his duties—are these both links in the same chain? If so—what kind of chain is this, and what lies at the end of it?

[Gailis] Yes, this is the chain of financial influence and bribery, in which bribery is performed in both "wholesale and retail." Both the first and the second councils of "Latvenergo" were bribed, and there were numerous conflicts of interest. Kreslinsh was surprised that a criminal case was filed in regard to a violation which he believed to be very minor. He knew that there were millions "turning around" in Latvenergo, and through his indiscretion, signed for receipt of the wages in violation of the law. He was receiving a salary not only in the Council of Ministers, but also in "Latvijas gaz" and in "Latvenergo." They brought these papers to me, and I could see that there was no other way out but to ask the prosecutor to file a case.

Although Koemets is very efficient, nevertheless he is a true manager of the old style. He operated with large unregistered monetary sums and inclined many in his own favor. He transferred money to parties (and a state enterprise does not have the right to do this), and sponsored various charitable and sporting events...

[Correspondent] The yacht, "Bravo," on which you travelled to the USA.

[Gailis] He did not sponsor the "Bravo." It was the property of Latvenergo.

[Correspondent] What parties did he pay?

[Gailis] I believe, several. When we fired Koemets, Kinna attacked me so sharply that I asked him directly: "Evidently he had transferred money to the KSL [not further expanded]..." Kinna did not deny this. I asked my own people whether our party also received something. The party—no, but I would not be surprised if some money had been received, channeled through various funds. I want to check into this.

I was also attacked by the editor of ATMODA ATPUTAY, Veydmane. I told her: "Doesn't your newspaper exist only because you are being supported by Latvenergo?" "Well, so what? It is advertising..." It is not advertising. It is a bought newspaper. Advertising is paid advertisement space, and not interviews with Latvenergo specialists which sing their praises.

And there were bankers too, although I will not say which ones, who asked me not to touch Koemets. Of course, this was Ozolinsh's initiative, and not mine. But I trust him. I trust all the ministers, and if I begin to distrust someone, then I think about how to get rid of him. When we were discussing the question of Latvenergo in the government, everyone took the side of Ozolinsh.

[Correspondent] The arguments were so convincing?

[Gailis] Here we are not even talking about anything criminal, but simply about a loss of confidence in Koemets. He repeatedly expressed his attitude toward the government—toward the master of Latvenergo, getting two things confused: The master is the government, and not him. He is only a hired director, a manager. In the matter of Latvenergo, much is difficult to prove, but I believe we will get to the bottom of it. For example, the introduction of a normal bookkeeping system was specifically hindered at the enterprise. Even State Control could not determine how much fuel oil had been purchased, and at what prices. If hundreds of thousands of tonnes are being purchased, it is enough to add 10 santimes onto each tonne in order to get huge monetary sums. At the present time, I have no proof that this is specifically the case. But I see what kind of financial activity Latvenergo has, with its mass sponsoring, about which the director of a state enterprise does not have the right to make decisions. We do not trust Koemets anymore.

[Correspondent] Is this associated with his policy errors in the sphere of power production?

[Gailis] Not, primarily with the fact that there is no "transparency" at the enterprise and nothing is being done to introduce it. Koemets was asked why he does not organize a competition to find suppliers, or something of the sort. He responded: "This does not apply to a state enterprise. I can do whatever I want." For the present

time, the official procedure specifies that competitions must be organized only at budget institutions. However, if the manager of a monopolist enterprise says this, it seems strange to me. After all, we—energy consumers—are paying him money, which he uses without any control.

[Correspondent] What kind of responsibility does the government bear for such enterprises, and who really controls them? The council, the minister?

[Gailis] Most often, the councils work for some unknown interests... Although the wages of the council members are not too high, they receive them from the enterprise, and not from the government. The structure of state administrative bodies is not regulated. The status of state enterprises is still defined by the law which was adopted during Soviet times: The enterprise does not answer for the obligations of the state, and the state—for the obligations of the enterprise. Theoretically, the interests of the state at the enterprises are represented by the council, whose membership is ratified either by the government—at such monopolist enterprises as Latvenergo and Latvijas Gaz, or by the minister.

[Correspondent] Is Koemets the only manager of a state enterprise against whom such accusations have been levelled?

[Gailis] We have several such large latifundists, and we should go step by step. Let us take "Latavio," for example. Every day, at the fault of this enterprise, over 30,000 lats fly out of the state pocket! This is still going on, and they are still submitting marvelous business plans... The slower privatization proceeds, the longer these directors of state enterprises can hold on.

[Correspondent] Perhaps we should dismiss Dinevich? Or Gutmanis?

[Gailis] In "Latavio" the situation is somewhat different. It is not easy to make the decision on liquidation of such a large enterprise. "Latavio" is the flagship of Latvian aviation, and this is not only an economic, but also a political and international question. Therefore, the case has been handed over to the Agency on Privatization. It is no longer within the competency of Gutmanis.

[Correspondent] To dismiss the director does not yet mean to liquidate the enterprise.

[Gailis] The future of "Latavio" today has two variants: If a buyer can be found, then part of "Latavio" will be sold and part retained for the state. And the enterprise will continue to exist, regardless of whether they leave Dinevich or not. If a buyer is not found—this will mean bankruptcy and liquidation...

[Correspondent] Before the elections, it would be beneficial for the LTs [not further expanded] government to remove Dinevich—the leader of the LSDWP [Latvian Social-Democratic Workers' Party] from his position...

[Gailis] In any case, I do not think in such categories. In regard to Latvenergo, I reject such an interpretation that, supposedly, by our decision we wanted to do harm to our political competitors.

[Correspondent] Is it not also a conflict of interest that the manager of a large state enterprise is at the same time also the chairman of a political party?

[Gailis] Yes, this is not right. And it would be better to terminate one's political activity.

[Correspondent] After the events with Lain-bank, you said that you issued no orders, that it was the associates of the MVD [Ministry of Internal Affairs] who acted. But there were, and still are, some rather strange coincidences here: The incursion into Lain-bank, the search of the president of Zemes Bank in his home and, finally, the annexation of the Deposit and Center-Bank to the Baltiya Bank. Does it not seem to you that these events are associated, and that certain unknown interests are concealed behind the actions of the MVD associates?

[Gailis] Nothing can be excluded, although very often, in analyzing some event, people try to make certain causal connections only at the level of conjecture. I am not one of those who believe that all events in the world are directed in accordance with some global masonic plan. As a manager, I often think—if only it would be possible to "manage" something in this way, it would be very good. However, there are also random occurrences... I do not believe that there can be any causal connection between the events which you named. Moreover, the unification of the banks is a result: Both Lavent and the other bankers are concerned about the financial stability of the state and, in order to save a system which could fall apart in case of bankruptcy of several banks, they take a risk and invest free monetary resources both in the Deposit Bank, and in the Center-Bank, and in the Lain-bank as well.

[Correspondent] The scandal with Lain-bank in fact demonstrated the dependence of the MVD on one statement. If it had not been made...

[Gailis] ...Nothing would have happened. For the MVD this statement was like a Christmas present. An investigation cannot be undertaken if there is no statement by the victim. When a victim who, with or without justification is also considered to be a swindler, finally wrote such a statement, the MVD got the opportunity to "enter the system." Of course, there are also many people in the police department who have the level of mentality of the old OBKhSS [Department for Combatting Misappropriations of Socialist Property and Speculation], and possibly, part of the accusations levelled against Lain-bank are unjustified. Nevertheless, every week I inquire as to how the case is coming along, and I am told: There are grounds for continuing it. In the West, forgery of book-keeping documents is considered to be a serious crime. Only here is it considered inconsequential.

[Correspondent] The banks are also financing the parties. What if something like that happened with a bank which actively helped LTs in recent times, or with the "Olimpiya" bank, which is managed by a member of your party, Ervin Tseikhner? In that case, would you also give just as much support to the actions of the MVD?

[Gailis] I would support the minister in any case. Moreover, Adamsons appeared in these events after all the actions had already been performed. I know for a fact that he did not give any orders. This was done by officials to whom the statement was addressed.

Perhaps, under another prime minister or minister of foreign affairs, it could have happened that such a case, if it were associated with party finances, would not have been filed. In my case, it did not happen that way.

With the bank which, as you say, sponsors LTs, we would have done the same thing except, considering the experience of Lain-bank, we would have used different means. There would not have been any policemen with automatic weapons, etc.

[Correspondent] Is not the selection of incorrect means a sufficient argument to speak of the lack of correspondence of the minister of internal affairs to the post which he occupies?

[Gailis] I believe that Adamsons corresponds perfectly well to his position. I have already said that it was not he who made the decision...

[Correspondent] But he answers for it?

[Gailis] Yes, he found out about it after the fact.

[Correspondent] You are the first to say that Adamsons did not know anything ahead of time.

[Gailis] Perhaps... But I liked the way he acted. Adamsons knew what fantastic pressure would be exerted on the investigators, and took it on himself.

[Correspondent] If the minister openly says that he did not know anything of an operation of such magnitude, that the MVD subdivision which was subordinate to him acted without his knowledge, should we not speak here about the responsibility of the minister?

[Gailis] Not all the decisions are made by the minister himself, although politically he does answer for them.

[Correspondent] No one doubts the fact that Adamsons catches swindlers better than did his predecessors, but there are several questions which he does not answer. Why, in his time, did he smoothe over the affairs of the OOO [not further expanded] LaCon in the interests of the firm? And instead of answering the specific question and explaining everything calmly, the MVD press service sends secretive announcements: In four days we will say in whose interests it is to ask such a question...

[Gailis] A politician has the right not answer questions, and you have the right to draw your own conclusions. I

agree that this is not to his credit. I too asked him what happened with this Daugavgrivskiy Port, and I do not think that Adamsons' actions could have any criminal intent. Why did they choose specifically LaCon? Evidently, they were the most active and came in first. At that time, the competitive principle had never been applied anywhere yet.

[Correspondent] DIENA published Adamsons' letter to the former chief of the customs service, in which he, as the deputy commander of the Naval Forces, non-synonymously asked that the matter be settled in the interests of LaCon. Observing today's events—the association between LaCon President Kazhi and the Lain-bank case—this cannot be interpreted in any other way but as a conflict of interest.

[Gailis] At that time, the cost of leasing a berth in the port could have been 10 times more, or it could have been two times less. There was no experience in such matters. Especially among military men, including Adamsons. Our army is still engaged in economic affairs, collecting money from firms, opening non-budget accounts. I do not think that they are putting the money in their pockets, but in any case this is unthinkable. My government must put a stop to this.

I believe Adamsons simply made an incompetent decision. After all, military men certainly do not have to be competent in such matters. The fact that he wrote the letter to the customs chief? Evidently, he acted incorrectly. However, we can forgive this. Each of us has sinned at one time or another, not knowing that this is not done in normal society. We are just growing in that direction, and perhaps the time will come when people will resign over such matters.

Adamsons inspired new life in the police. Before that, everyone there had lost heart. Perhaps, Chevers still "commands" part of the police, as before, through the Droshiba fund. Who knows how many policemen are being paid by the commercial structures to gather information...

[Correspondent] The Droshiba fund is providing massive financial and material aid to the internal affairs structures. The public, non-state organization is sponsoring the state. Is this not a conflict of interest, especially if we consider that the activity of this fund is also associated with domestic security, and that there is a political party behind it?

[Gailis] That is so. If someone wants to contribute to the state, go right ahead. But in that case, special funds should be established, where the contributors may give money, so that the contributions lose the connection between the specific giver and those who receive this money. Then the contributor would not know who is getting the money, and would not be able to go to him and say: "I gave you money, now you do such-and-such for me." Chevers is making politics on this.

[Correspondent] Knowing of Adamsons' contacts with Kazha, who is also associated with the Droshiba fund, as well as with Saimnieks, and with the AO [joint-stock company] "Baltijas Holdings," which provides for Saimnieks, is Adamsons that person who can stop the influence of the Droshiba fund on the MVD? And is this generally being done?

[Gailis] Tomorrow morning I will ask him this question. One example is known. The MVD press center makes broadcasts for television, and they have leased a camera from the Droshiba fund. Nevertheless, the CM [Council of Ministers] press center had a camera when Adamsons came to office, and he suggested not using the aid of the Droshiba fund. Today they are working with the government camera.

[Correspondent] You trust Adamsons because you know that he can be trusted, or does it just seem that way to you? Are you absolutely sure of him?

[Gailis] My principle is to trust up until that moment when I no longer trust. Adamsons' former activity—the way in which he commended himself and that which I know about him—gives me no reason to re-consider my faith in him. I am entirely convinced that he is honest.

[Correspondent] We hope the same thing does not happen with you as with Godmanis, who kept affirming that he trusted his ministers, although in fact he did not know what the ministers were doing behind his back.

[Gailis] I hope so too... Although I trust my people, they should, of course, be controlled.

[Correspondent] Recently some person bragged over the radio that he has some compromising video material on your little sins. Do you think that something compromising might surface before the elections?

[Gailis] I do not know anything about a video, although it is entirely clear that there will be such attempts. Of course, I am not an angel, but nevertheless I doubt very much that someone could have such "compromise" of which I would have to be ashamed.

If someone plans to stage an insinuation, he might try to bring to light the facts on my activity in the Godmanis government, when I was the general director of the department of foreign economic relations. At that time, I performed several acts for which I was criticized then, but of which I am proud today. Currency stores opened up, and we collected 10 percent from their turnover. And although many tried to swindle us, nevertheless the money went into the CM currency fund, and moreover today we have a normal network of stores. Free trade in currency was also my initiative. It in fact "killed" the black market in currency and created the basis for the convertibility of the laty. A third matter—in the Spring of 1991 we were able to achieve in Moscow that licenses for export would be issued by Latvia, and my department began to issue them. The principle was such—the

more, the better. I issued around 1,000 licenses, and in this case it was also necessary to pay 10 percent of the turnover.

Did corruption exist in my buro? I cannot exclude the possibility. I dismissed one person because I heard that he was trying to force one firm to hire his wife as its bookkeeper.

However, it is unlikely that there was corruption in the issuance of licenses. At that time, a license could be obtained very easily—one had only to present a few documents.

Of course, they said: If such big money is "turning around" there, then Gailis himself is clearly also corrupt. The basis for such rumors, possibly, was one anecdotal incident. The CM adopted the decision that \$500 U.S. dollars should be paid to our department for registration of representations of foreign firms. Once I heard that my colleague, Janis Karklinsh, had demanded a bribe. I was shocked, since I fully trusted this man. I met the man from whom he supposedly demanded the bribe, and he told me: "I called Karklinsh because I wanted to open a representation of my firm, and Karklinsh told me: 'That will cost you \$500, my friend...'"

[Correspondent] Once you were even sent an envelope containing money.

[Gailis] Yes, that was a thousand from TOP-bank, with a proposal to acquire stock and to participate in joint enterprises. In such cases, I always laugh and say: When I withdraw from all matters, maybe I will come and ask you for work.

Recently, my family experienced a difficult period. My wife, an architect, had to pay last year's taxes in the sum of around 5,000 laty, and we simply did not have such a sum. There were all sorts of advisors who told Zaiga to do this and that to reduce the tax. Of course, I stated categorically that we could not do this. We took all my savings out of the bank (at one time, I was able to put 750 laty in an account at the Baltiya Bank, back when they paid 70 percent per annum, and from every paycheck I added 150 more laty). We scraped together all that we had and paid the money, leaving us with absolutely nothing. I am very proud of this, and Zaiga too is happy, although at first she cursed the government and complained that half of the income goes to taxes. That was an interesting week for us.

*Interior Minister Accused of Illegal Activities

Improper Port Facility Contract

954F1931A Riga DIYENA in Russian 2 Mar 95 p 3

[Article by Janis Domburs and Ugis Salna, NIP Bureau: "Daugavgrivas Harbor Business Not Over Yet"]

[FBIS Translated Text] Facts showing the participation of current Foreign Affairs Minister of the Latvian

Republic Janis Adamsons and Saeima Deputy Erik Kazha in a transaction concluded in 1993 by the Navy of the Latvian Republic and the firm *La Con* for leasing the Bolderaja military harbor actually exist. At that time J. Adamsons was deputy commander of the Navy and E. Kazha was and still is the co-owner and president of the firm *La Con*. At the same time the participation of a number of officials in this business makes it impossible simply to call it "Adamsons-Gate," as *DIYENA BUSINESS* did on Wednesday. *DIYENA BUSINESS* also gives imprecise figures when commenting on the contract that was dissolved a year after it was concluded. It gives an extremely low lease payment—500 lats a year for 1,000 meters of dock—while in the actual case the lease payment, according to the conditions of the contract, was 20,700 lats. True, up to this point there is no reliable assessment of how closely this amount corresponds to the actual value of the harbor. And the procurator general of the Latvian Republic thinks that the assessment of the lease payment does not fall under his jurisdiction. *DIYENA BUSINESS* also points out the link between the actions of J. Adamsons in the post of minister of internal affairs in the case of the *Layn-Bank* and the transaction with *La Con*.

After the intervention of the Procuracy, the Navy and *La Con* concluded a new contract. Throughout the history of this transaction we looked for the answers to two questions: Did J. Adamsons "push through" this transaction, and did Eric Kazha's firm rent the Bolderaja docks in compliance with the contract? The second question, as usual, remains fully within the realm of the Procuracy, but there are not enough convincing arguments to answer the first question in the affirmative.

Kazha's Firm Has Been Operating in Bolderaja Since 1992

As early as 1992, Russian military structures concluded a lease contract with a number of Latvian firms, which used the port mainly for exporting metal and peat—OOO [expansion not given] *Latvijas kurda* and OOO *Mik*, which were also co-owned by Eric Kazha.

At the beginning of 1993, discussions began to appear in the press regarding whether the harbor should be turned over to the Latvian Ministry of Defense, or whether it should continue to be leased to the firms. E. Kazha publicly supported the latter option (*DIYENA*, 20 February 1993).

On 30 March 1993, when the Russian Army was still in charge of the harbor, the Navy, represented by G. Zejtbots, concluded the first agreement with the *La Con* firm—a protocol on intentions of readiness to consider the question of leasing part of the Daugavgrivas harbor. On 3 June 1993, a contract was concluded for leasing and investments. On behalf of the lease holder—the Navy—the contract was signed by the commander of the Central Region of the Navy, Captain Martinsh Zemzans. The contract was concluded for a period of 15 years.

According to appendix No. 3 of the contract, the lease payment is 0.06 Lats per square meter, that is 20,700 lats per year for 34.5 hectares.

The approval from Janis Adamsons can be found in the contract itself and in the appendixes—concerning the calculation of the lease payment and changes and additions to the contract. The assertion of the newspaper *DIYENA BUSINESS* that the signature of the current minister of internal affairs can be found on all documents related to the contract is not true. J. Adamsons' signature does indeed appear on the main documents, but it figures nowhere as a first signature. Of course, the approval of the documents shows that J. Adamsons is taking responsibility for this contract.

The Interests of a Number of Firms and Officials Collided in the Harbor

Right up until the beginning of 1994, it was impossible for the *La Con* firm to operate in the harbor, since the Russian Army was still in charge in Bolderaja. After the harbor was turned over to the Latvian defense department, *La Con* submitted its claims to a number of firms conducting export operations on the territory that was leased. These firms—*Norkett*, *MB-SP*, *Daks Ko*—submitted their claims not only to Erik Kazha's firm, but also to high Latvian officials. The firms received a response from the prime minister of the Latvian Republic, Valdis Birkavs, himself, who, referring to problems of a legal nature, explained: "Commercial structures may conclude contracts for business use of the harbor, including leasing part of it, only after the adoption by the Cabinet of Ministers of a decision concerning the right to management and utilization of movable and immovable property of the port."

The leader of the Bureau for Oversight of the Withdrawal of the Russian Army, Ilogins Upmalis, objected to leasing part of the harbor to the *La Con* firm. He expressed his objections in writing to the Ministry of Defense of the Latvian Republic and later, in the press, specifically to the Navy command—Gajdis Zejtbots and Janis Adamsons.

On 12 April 1994 by an order of the Cabinet of Ministers of the Latvian Republic the Daugavgrivas harbor was turned over to the Ministry of Defense of Latvia.

The Procuracy Asked for the Contract To Be Revised

Within less than a month, the Procuracy of the Latvian Republic by way of general oversight requested that Minister of Defense Valdis Pavlovskis solve the problem of concluding a leasing contract with *La Con* in compliance with the requirements of the law or the invalidation of this contract. It is pointed out in the statement from the Procuracy that when the contract was concluded, the norms of the Civil Law were violated, and the defense minister's order concerning assessment of such contracts was not taken into account either.

A contract with new wording was concluded on 7 July 1994. Signing for the *La Con* firm, as with the first contract, was the firm's director Andris Libers, and for the Navy—J. Mujznicks, who replaced the commander of the naval Central Region Martins Zemzans.

The main objection from the Procuracy, concerning the time periods of the contract, however, was not taken into account. The naval command refers in this regard to a number of laws and normative acts. The Procuracy did not react to the new contract as sharply as it did the first—there had been negotiations with representatives of the Ministry of Defense—and on 15 December the Procuracy requested that Defense Minister Arnis Arved Trapans evaluate all contracts of this nature concluded by the Ministry of Defense. The Ministry of Defense responded that this work would be done.

Adamsons Has No Personal Interest Here

"It was Adamsons and I who back in 1993 demanded through the courts that the contract concluded between the Russian Army and Kazha's firm *Mik* be nullified," says Navy Commander Gajdis Zejtbots, denying the possibility of an agreement between J. Adamsons and E. Kazha. "When the negotiations with *La Con* began, we did not even know what kind of firm was being backed by Erik Kazha and Vasilii Melnik (co-owner of *La Con*, deputy of the Riga Duma from the Sajmnieks organization—author). We spoke with Libers, and we needed a firm which in the interests of the Ministry of Defense would undertake serious work for reconstruction. Now this work has been done."

Answering the question of whether he had tried to work a deal for leasing the Daugavgrivas harbor through J. Adamsons, Erik Kazha said: "The contract was concluded and formalized by our executive director Libers.

"Of course later, when deciding and clarifying issues about the lease payment, we all sat at the negotiating table together—including Zejtbots and Adamsons and my partner (V. Melnik—author)."

Favoritism in Business Deal

954F1931B Riga DIYENA in Russian 4 Mar 95 p 3

[Article by Janis Domburs and Ugis Salna, NIP Bureau, under the rubric "Transaction": "Last Year Adamsons Supported Kazha's Business Firm"]

[FBIS Translated Text] When checking on the connections between Minister of Foreign Affairs Janis Adamsons and Saeima deputy and entrepreneur Erik Kazha and his participation in the leasing of the Daugavgrivas port to E. Kazha's firm *La Con* in 1993, it was discovered that Adamsons had on his own initiative signed a document that supported the interests of *La Con*.

Adamsons Demanded That a Treaty Be Concluded With *La Con*

As was written earlier, the contract on leasing and investments of 3 June 1993 with *La Con* regarding the

Daugavgrivas port was signed by the commander of the Navy's Central Region, Captain Martins Zemzans, and approved by the deputy commander of the Navy, Janis Adamsons. But during the course of the implementation of the transaction, J. Adamsons personally entered into the settlement of issues related to the business with *La Con* and other firms.

A letter from J. Adamsons to the director of the Riga customs office, Z. Tamsons, dated 28 January 1994, discusses the activity of another export firm operating in the Daugavgrivas port—*Daks Ko*. [Letter in Latvian is printed in box on p 3.] In this letter, Adamsons notifies the chief of the Riga customs office of the Navy's position regarding the transportation of cargo and that a permit to carry out this measure would involve the conditions that *Daks Ko* would conclude and agreement with *La Con*....

Now, in a different position, J. Adamsons states that his duties included approving many documents, including transactions with *La Con*. But in the case of *Daks Ko* he did much more than was envisioned by the leasing contract signed on 3 July 1993 between the Navy and *La Con*. It said that the leaseholder would not prohibit or interfere with the lessee's utilization of the leased property, but here J. Adamsons as a representative of the leaseholder actually tried to promote the activity of the lessee and engaged in settling economic transactions in the interest of the lessee.

Upmalis's Interests Seemed Suspicious to Navy Leaders

Although the leasing agreement was signed a half year ago, on 8 November 1993 an appendix concerning the lease payment was signed and the parties agreed to conduct work on reconstruction only in January 1994, while control of the Daugavgrivas port was transferred to representatives of Latvia back while the Russian Army was still there. The legal transfer of the property had not yet been completed, and during this process a conflict arose between the Bureau for Oversight of the Withdrawal of the Army of the Russian Federation and the Defense Department of Latvia. Attention is drawn to the reference to this conflict in the aforementioned letter from J. Adamsons of 28 January 1994.

It mentions a letter from the leader of the Bureau for Oversight of the Withdrawal of the Army of the Russian Federation, Ilgonis Upmalis, to the minister of defense of the Latvian Republic. The proposal made in point 5, in which Adamsons calls for drawing a conclusion about "who and whose interests are represented," goes as follows: "Temporarily, until a law on ports of the Latvian Republic is adopted, in order to maintain the movable and immovable property on the territory, firms that have concluded contracts with the Armed Forces of the Russian Federation shall be permitted to engage in economic activity, except for those that are tearing down buildings without permission or operating in violation of laws of the Latvian Republic."

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